EUROPEAN UNION (FINANCE) ACT 2015EXPLANATORY NOTES

What these notes do

These Explanatory Notes relate to the European Union (Finance) Act 2015 (c. 32) which received Royal Assent on 21 July 2015.

- These Explanatory Notes have been prepared by HM Treasury in order to assist the reader in understanding the Act. They do not form part of the Act and have not been endorsed by Parliament.
- These Explanatory Notes explain what each part of the Act will mean in practice; provide background information on the development of policy; and provide additional information on how the Act will affect existing legislation in this area.
- These Explanatory Notes might best be read alongside the Act. They are not, and are not
 intended to be, a comprehensive description of the Act. So where a provision of the Act does
 not seem to require any explanation or comment, the Notes simply say in relation to it that the
 provision is self-explanatory.

Table of Contents

| Subject | Page of these Notes |
|--|---------------------|
| Overview of the Act | 2 |
| Policy background | 2 |
| Legal background | 3 |
| Territorial extent and application | 3 |
| Commentary on provisions of Act | 4 |
| Section 1 Section 2 | 4 |
| Commencement | 5 |
| Related documents | 5 |
| Annex A - Territorial extent and application | 6 |
| Annex B - Hansard References | 7 |

Overview of the Act

1 The purpose of the European Union (Finance) Act 2015 is to enable the United Kingdom to give effect to the new Own Resources Decision of the European Union (EU Council Decision of 26 May 2014: 2014/335/EU, Euratom), amending the arrangements for the financing of the annual budget of the EU.

Policy background

- 2 The European Union (Finance) Act 2015 reflects the political agreement reached at the 2013 February European Council (FEC) on the revenue side of the 2014 to 2020 Multiannual Financial Framework (MFF). The financing system (the "own resources" system) for the 2014 to 2020 MFF, as agreed by the FEC, sees very little change to the system in place for the 2007 to 2013 MFF; there will be no new own resources, no EU-wide taxes, and no change to the UK abatement.
- 3 Under the previous Own Resources Decision (Council Decision of 7 June 2007: 2007/436/EC, Euratom), the EU budget is financed primarily from own resources, consisting of:
 - a. Levies and duties on trade with non-member countries in agricultural goods including sugar;
 - b. Customs duties on trade with non-member countries. Together with 3(a), these are called "traditional own resources" or TOR;
 - c. The yield from applying a call-up rate to a hypothetical harmonised VAT base, assuming an identical range of goods and services in each Member State; and
 - d. A fourth resource based on Gross National Income (GNI), the call-up rate of which is determined by what is required (given all other revenue) to balance the budget on the one hand and the total EU GNI on the other hand.
- 4 The new Own Resources Decision (ORD) retains the existing categories of own resources and does not introduce any new own resources or EU-wide taxes to finance the EU budget.
- The Member States' "retention rate" for Traditional Own Resources (TOR), which covers Member States' collection costs for customs duties, is reduced from 25% to 20%. This means a larger share of the EU budget will be financed from TOR with a corresponding reduction in GNI-based contributions. Notwithstanding, this change will have no impact on the ultimate cost of the EU budget to the UK (see Financial Implications).
- 6 For the period 2014 to 2020, the ORD re-introduces the reduced rate of call for VAT-based contributions for Germany, the Netherlands and Sweden, which will be fixed at 0.15% for these Member States compared to 0.3% for all other Member States. Austria, which benefited from a reduced call rate for its VAT-based contributions over 2007 to 2014, will revert to a standard call rate (0.3%) over the 2014 to 2020 MFF.
- 7 For the period 2014 to 2020, the ORD also re-introduces reductions in the GNI-based contributions of the Netherlands and Sweden, and introduces a reduction in these contributions for Denmark. These reductions constitute lump sum corrections for these Member States and they are fixed at €695 million, €185 million and €130 million per year respectively. Reductions in GNI-based contributions of €30 million in 2014, €20 million in 2015 and €10 million in 2016 are provided also to Austria. All amounts are expressed in 2011 prices.
- 8 The ORD lays down the own resources ceilings for payments (1.23% of total Member States GNI) and commitments (1.29%) and sets out the method for calculating subsequent changes to

- these ceilings following the introduction of European Systems of Accounts 2010 (ESA 2010) by all Member States.
- 9 The ORD retains the current mechanism for the UK abatement and the way it is financed by other Member States. Three time-limited transitional provisions in the abatement text have been deleted, as they expired at the end of 2013: (i) enlargement-related adjustment to total allocated expenditure; (ii) a phase-in schedule for the "disapplication" of the UK abatement to non-agricultural expenditure in Member States that have acceded to the EU after 30 April 2004, which is now fully phased-in; and (iii) a cap on the cost to the UK of the abatement "disapplication".
- 10 The ORD sets out the procedures for Member States' financing of the annual EU budget through the own resources system. These include (i) the "universality principle" which states that own resources shall be used without distinction to finance all expenditure entered in the Union's annual budget; (ii) the treatment of budget surpluses any surplus over total actual expenditure shall be carried over to the following financial year; and (iii) the legal requirement for Member States to collect own resources and make them available to the European Commission.

Legal background

- 11 The Act gives effect to the Government's agreement to the EU Decision on EU financing for the period 2014 to 2020 by approving the Decision itself and adding it to the list of EU Treaties (Community Treaties) for the purposes of the European Communities Act 1972, so that the necessary funds can be charged on the Consolidated Fund.
- 12 The legal basis of the ORD is the third paragraph of Article 311 of the Treaty on the Functioning of the European Union (TFEU) and Article 106a EURATOM.

Territorial extent and application

13 The provisions of the Act extend to the whole of the United Kingdom. The subject-matter of the Act does not fall within the legislative competence of the Scottish Parliament, the National Assembly for Wales or the Northern Ireland Assembly.

Commentary on provisions of Act

14 The Act has two sections.

Section 1

15 Section 1 provides (a) that the Council decision of 26 May 2014 on the system of own resources of the EU (2014/335/EU, Euratom) is approved for the purposes of subsection (1) of section 7 of the European Union Act 2011(decisions requiring approval by Act of Parliament) and (b) that the new ORD shall be added to the list of EU Treaties (Community Treaties) in section 1(2) of the European Communities Act 1972, thus allowing payments made by the United Kingdom pursuant to the Decision to be charged directly on the Consolidated Fund or the National Loans Fund under section 2(3) of that Act.

Section 2

16 Section 2 repeals the European Communities (Finance) Act 2008 since the wording of section 1(2)(e) of the European Communities Act 1972, substituted by section 1 of this Act, supersedes the wording substituted by the 2008 Act.

Commencement

17 The Act comes into force two months after Royal Assent. The ORD requires approval by Member States in accordance with their constitutional requirements. It will enter into force on the first day of the month following receipt by the Secretary General of the Council of the final notification of Member State approval but will apply retrospectively to 1 January 2014.

Related documents

- 18 The following documents are relevant to the Bill and can be read at the stated locations:
 - Explanatory Memorandum on ORD (17 February 2014):
 URL: http://europeanmemoranda.cabinetoffice.gov.uk/files/2014/03/5466-14.pdf
 - The House of Commons European Scrutiny Committee reported on the draft of the May 2014 ORD in its 37th Report of Session 2013–14 (HC 83-xxxiv), published on 11 March 2014. The Committee concluded "we note that the agreed Own Resources Decision will require an Act to amend Section 1(2)(e) of the European Communities Act 1972 and suggest that Members will want to take that opportunity to examine the Government's assertions in relation to the effects of the Own Resources system for the UK during the period 2014-2020" (37th Report of Session 2013–14, HC 83-xxxiv, paragraph 22.14).

URL: http://www.publications.parliament.uk/pa/cm201314/cmselect/cmeuleg/83-xxxiv/8326.htm

The House of Lords EU Select Committee scrutinised the draft of the May 2014 ORD. This was cleared by Chairman's sift 1535 dated 25 February 2014.

 Council Decision on the system of own resources of the EU (26 May 2014): http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014D0335&qid=1432207654786&from=EN

Annex A - Territorial extent and application

| Provision | England | Wales | | Scotland | | Northern Ireland | |
|-----------|---|---|---|----------------------|---|------------------------------------|---|
| | Extends to E & W and applies to England? | Extends to E & W and applies to Wales? | Legislative Consent Motion required? | Extends to Scotland? | Legislative Consent Motion required? | Extends to Northern Ireland? | Legislative Consent Motion required? |
| Section 1 | Yes | Yes | No | Yes | No | Yes | No |
| Section 2 | Yes | Yes | No | Yes | No | Yes | No |

Annex B - Hansard References

19 The following table sets out the dates and Hansard references for each stage of the Act's passage through Parliament.

| Stage | Date | Hansard Reference |
|--|--------------|-------------------------------------|
| House of Commons | | |
| Introduction | 3 June 2015 | Vol. 596 Col. 610 |
| http://www.publications.parliament.uk/pa/bills/cbill/2015- 2016/0005/cbill_2015-20160005_en_1.htm | | |
| Second Reading | 11 June 2015 | Vol. 596 Col. 1385-1429 |
| Report and Third Reading | 23 June 2015 | Vol. 597 Col. 760-810 |
| House of Lords | | |
| Introduction | 24 June 2015 | Vol. 762 Col. 1596 |
| http://www.publications.parliament.uk/pa/bills/lbill/2015- 2016/0050/lbill 2015-20160050 en 1.htm | | |
| Second Reading | 8 July 2015 | Vol. 764 Col. 184-190 |
| Committee | 8 July 2015 | Vol. 764 Col. 190 |
| | | (Committee negatived) |
| Third Reading | 8 July 2015 | Vol. 764 Col. 190 |
| Royal Assent | 21 July 2015 | House of Commons Vol. 598 Col. 1349 |
| | | House of Lords Vol. 764 Col. 997 |

[©] Crown copyright 2015

Printed in the UK by The Stationery Office Limited under the authority and superintendence of Carol Tullo, Controller of Her Majesty's Stationery Office and Queen's Printer of Acts of Parliament

07/2015 50951 19585

 $\label{published} \mbox{ Published by TSO (The Stationery Office) and available from:} \\$

Online

www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries 0333 202 5070

Fax orders: 0333 202 5080 Email: customer.services@tso.co.uk

Textphone: 0333 202 5077

The Houses of Parliament Shop

12 Bridge Street, Parliament Square

London SW1A 2JX

Telephone orders: 020 7219 3890/General enquiries: 020 7219 3890

Fax orders: 020 7219 3866 Email: shop@parliament.uk

Internet: http://www.shop.parliament.uk
TSO@Blackwell and other Accredited Agents

£6.00

