HM Treasury

European Union Finances

Statement on the implementation of the Withdrawal and Trade and Cooperation Agreements

CP 732

July 2022

The European Union Finances Statement 2021 on the implementation of the Withdrawal and Trade and Cooperation Agreements

Presented to Parliament
by the Secretary of State for Chief Secretary to the Treasury
by Command of Her Majesty

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Chapter 1
Introduction

1.1 In 1980, following a recommendation by the Public Accounts Committee, the government agreed to present an annual statement to Parliament giving details of the Budget of the European Union (EU). This European Union Finances Statement (EUFS) is the 41st in the series.

1.2 The United Kingdom (UK) left the EU on 31 January 2020 following the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community (the Withdrawal Agreement (WA)).

1.3 The WA was followed by a transition period in which the UK was no longer a member of the EU but remained a member of the single market and customs union. During that time, it continued to be subject to EU rules and obligations to contribute to the EU Budget. 31 December 2020 marked the end of the transition period. This edition focuses on reporting the UK's first full year outside of the EU, from 1 January 2021.

1.4 The purpose of the annual EUFS has evolved alongside the changing nature of the UK's financial relationship with the EU. The 2020 edition (published July 2021) maintained much of the same routine content as previous years, reflecting the UK's participation in that year's EU Budget. It covered the value of UK payments and receipts, past contributions, anti-fraud efforts and the government strategy for managing EU funds in the UK. It also included two forward-looking annexes: one reporting on the verification processes of the first payment under the WA and the other on the UK's participation in EU Programme under the Trade and Cooperation Agreement (TCA).

1.5 Now that the UK has left the EU and is no longer involved in the EU's Multiannual Financial Framework (MFF), detailed financial reporting on participation in the Budget is of diminishing pertinence.

1.6 However, the focus in this EUFS is instead on the implementation of the WA, in which the UK and EU agreed to settle joint liabilities arising from the period of the UK's membership. First, this edition gives a breakdown of the invoices received from the EU, setting out payments made in 2021. It then covers the UK's processes to verify that the invoices are correct, explaining the strategies in place for each Article of the WA. Then, although the EUFS is mostly backward looking, it provides a forecasted estimate of the UK's total outstanding liability, including those under the TCA.

1.7 In the short-term certain elements that were covered in previous reports given remain relevant, given the UK's continued exposure to the tail of certain programmes funded under the 2014 to 2020 MFF. Annex B therefore shows the public sector receipts from the 2014 to 2020 MFF, as well as a summary of the anti-fraud reports and government strategy for the use of EU funds (previously found in the EUFS's main body).

1.8 Annex A compares HM Treasury's settlement and forecasting methodology with that of the Office of Budget Responsibility (OBR) and explains some of the context relevant to the preparation of different estimates for accounting purposes. Annex C includes a glossary of the key terms and abbreviations used in the document.

1.9 The cut-off date for reporting for this edition of the EUFS is 31 December 2021, as these statements will continue to be published on a yearly basis. However, the EUFS also provides brief details of the invoice received subsequently to this period in April 2022, and which will be reported on in detail in next year's edition.

Chapter 2

Payments made during 2021

Overview of the Withdrawal Agreement (WA)

2.1 The United Kingdom (UK) left the European Union (EU) on 31 January 2020 following the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community (the WA).[1]

2.2 The WA was followed by a transition period in which the UK was no longer a member of the EU but remained a member of the single market and customs union. During that time, it continued to be subject to EU rules and obligations to contribute to the EU Budget. The transition period ended on 31 December 2020, which is the EU's financial year-end date and the reporting date used for reporting on the UK's outstanding net liabilities.

2.3 The WA sets out the financial settlement that was reached on the UK's rights and obligations as a departing Member State. The settlement is based on three agreed principles that ensure a fair deal for UK taxpayers:

- The UK will not finance any commitments that it would not have funded if it had remained a Member State, and will receive a share of any financial benefits that would have fallen to it had it remained a Member State

- The WA establishes the UK's share of EU obligations in the settlement. For 2020, the share was based on the existing methodology for determining the UK's annual EU budget contributions. Payments made after the end of the transition period are based on the UK's average share of contributions to the EU during the previous Multiannual Financial Framework (MFF). In other words, the UK's share from 2021 onwards is the average of its share of the EU budget (taking into account the rebate) over 2014 to 2020.

- The UK will not be required to incur expenditure earlier than would have been the case had it remained a Member State, although the WA allows for exceptions to be made in a few specific cases where it might be in both sides' interests to settle costs early. This is particularly relevant for pensions, where costs will decline steadily over a long period of time

[1] Agreement on the Withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community can be accessed at: https://www.gov.uk/government/publications/new-withdrawal-agreement-and-political-declaration

The European Union Withdrawal Agreement Act 2020

2.4 The European Union (Withdrawal Agreement) Act 2020 (WAA) implemented the WA into domestic law. It received Royal Assent on 23 January 2020.

2.5 Section 20 of the WAA on financial provisions allows the government to meet the financial obligations set out in the WA. The legislative mechanism in the Act was a standing service provision until 31 March 2021, which enabled payments to be made from the Consolidated Fund without further Parliamentary authorisation. The end of the standing service provision during 2021 meant that the majority of net liabilities arising under the WA in 2021 were met, for the first time, from HM Treasury's supply Estimates and recorded in the department's annual report and accounts.[2]

2.6 The exception is for payments related to Traditional Own Resources (TOR), which must be paid separately from the Consolidated Fund using the standing service provision which has been maintained for that purpose alone.[3] This is because TOR payments consist of customs duties historically collected by the UK acting as an agent for the EU.

2.7 The WAA does not grant payment authority relating to any future agreements between the UK and EU and forecasted payments under the Trade and Cooperation Agreement (TCA), for example, are considered separately in Chapter 5.

Assets and liabilities

2.8 The UK is currently paying its share of the EU's liabilities as recognised at 31 December 2020 and benefits from a share of EU assets in several ways. In some cases, for example property and buildings, the asset reduces or removes a liability that might otherwise have fallen to the UK. In others, for example investment assets associated with EU guarantees, the UK will get a share of the profits and original investment as they mature.

2.9 The most significant residual liabilities are in relation to the pensions and other employee benefits of the members and staff of the European institutions. The UK will contribute towards those pension rights accrued on or before 31 December 2020. The UK will pay its share of these pension rights as the costs fall due to the EU, unless the UK decides to settle this early.

2.10 The financial settlement also includes a number of contingent liabilities, most of which were reported to Parliament as remote contingent liabilities when the UK was a Member State. These are not disclosed in the accounts under international accounting standards, such as IAS 37 on Provisions, Contingent Liabilities and Contingent Assets, where the possibility of an outflow of resources is remote.

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2 Further information can be found in the HM Treasury Annual Report and Accounts 2020-21 and 2021- 22 published on Gov.uk at: https://www.gov.uk/government/publications/hm-treasury-annual-report-and-accounts-2020-to-2021

3 European Union (Withdrawal Agreement) Act 2020 Section 20(2). The document can be accessed at: https://www.legislation.gov.uk/ukpga/2020/1/section/20/enacted

2.11 In most cases the contingent liabilities that remain under the financial settlement are limited to those that the EU has taken on up to the date of withdrawal. The exception is costs associated with legal cases related to the budget and linked policies and programmes, which is limited to cases where the facts relate to the period of the UK's participation in the EU budget (before the end of 2020).

2.12 Many of the contingent liabilities relate to guarantees on financial operations managed by the EU and its implementing partners. Under the Financial Settlement the UK has a right to a share of the associated guarantee funds (GF) the EU accumulated to meet potential calls on these underlying operations. To the extent the UK's share of these GF is not drawn upon to meet calls on the financial operations the UK will receive a positive return from its share of these instruments.

The Payment Process

2.13 UK contributions to the EU Budget over 2020 were based on established processes and a consistent control environment. The institutions of the Union continue to be audited by the European Court of Auditors (ECA) in their implementation of the EU Budget, as they did when the UK was a Member State.

2.14 Since payment of the final amount related to the transition period in February 2021, subsequent payments have been made in accordance with the specific methodology set out in the WA.

2.15 Under the WA, the EU issues two invoices, in April and September each year. The April invoice includes a schedule for equal payments in the 4 months from end June and the September invoice is followed by 8 further monthly instalments from end October.[4]

2.16 The April 2021 invoice provided a single net liability for the UK of €3,763,622,581.98. All instalments of the invoice were paid in full and on schedule.

2.17 The September 2021 invoice provided a single net liability for the UK of €8,169,438,746.98. Of this amount, 3 payments totalling €3,063,539,530.11 were due during 2021 and were paid in full and on schedule.

2.18 The 5 payments which were due for payment from January 2022 are not within the scope of this Chapter but are included in HM Treasury's revised forecast of the value of the financial settlement.

2.19 An overview of the April 2022 invoice is also provided for completeness at the end of this chapter and will be reported in further detail next year.

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[4] Article 148 – Withdrawal Agreement: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/840655/Agreement_on_the_withdrawal_of_the_United_Kingdom_of_Great_Britain_and_Northern_Ireland_from_the_European_Union_and_the_European_Atomic_Energy_Community.pdf .

2.20 Further details on the verification processes undertaken by HM Treasury in paying these invoices and governance of the ongoing relationship with the EU are provided in Chapter 3.

2.21 The following table provides the schedule of monthly payments of net liabilities made by the UK. Liabilities are settled in Euros at the exchange rate prevailing on the value date of each monthly payment.

Table 2.A: Monthly payments of net liability under Article 148

Date	Amount (€)	Amount (£)†
30th June 2021	940,905,646	807,044,881
31st July 2021	940,905,646	801,075,776
31st August 2021	940,905,646	806,092,685
30th September 2021	940,905,646	804,514,786
31st October 2021	1,021,179,843	862,263,121
30th November 2021	1,021,179,843	859,926,356
31st December 2021	1,021,179,843	871,801,554
Total Payment under the Financial Settlement of the WA in 2021	6,827,162,113	5,812,719,159

† These values are the costs in sterling to purchase the euros required to settle monthly instalments.

Determining the UK's financing share (A139)

2.22 The UK's financing share under the WA is determined by the ratio of own resources made available by the UK to all own resources made available by all Member States from 2014 to 2020. "Own resources" is a term used to describe Member State contributions to the EU budget. Over 2014 to 2020, these were primarily Customs Duties, contributions based on VAT and GNI-based contributions.

2.23 The UK financing share during 2021 was set on a provisional basis by the European Commission (EC) at 12.358072326018200% and this share is used to calculate the UK's net liability. It was finalised in 2022 (after the cut-off date for this EUFS) based on definitive data and corrections to UK net liabilities were included in the April 2022 invoice.

Reste à Liquider (RAL) (A140): Outstanding Payments

2.24 Article 140 (A140) of the WA states that the UK will pay its share of outstanding budget and agency commitments as at 31 December 2020, as these commitments fall due. The payments are based on estimates for the year, less amounts over or underpaid in the previous year when outturn is compared to the original estimate payment. This is the most significant component of the Financial Settlement under the WA.

2.25 In March 2021, the EU delivered the A140 March report detailing the overall liability and the amounts payable for expected budgetary contributions for 2021. The amount was payable in 12 equal monthly instalments across the two invoices. The first payment was made on 30 June 2021. The total amount payable disclosed in the 2021 March report was €12,295mn, of which €7,172mn was payable in the 7 payments due in 2021.

2.26 In addition, there were various adjustments relating to Traditional Own Resources and Net Financial Corrections. The impact of these adjustments resulted in a €454mn reduction in payments to the EU over the April and September 2021 invoices and €422mn reduction in payments to the EU in 2021.

Fines Revenue (A141)

2.27 Under Article 141 of the WA the UK is entitled to its share of fines decided before 31 December 2020 and those decided upon by the Union after 31 December 2020 in a procedure referred to in Article 92(1) when these become definitive.

2.28 The WA does not mention any required reporting for A141, however HM Treasury have agreed with the European Commission (EC) that supporting bi-annual reporting on fines cases will be provided. Fine revenue is not reported in the April Invoice, only in the September Invoice. €53mn was reported as due to the UK in the September 2021 Invoice, of which €20mn was offset against UK net payments in the three instalments due in 2021.

Pensions liabilities (A142)

2.29 Under Article 142, the UK is liable for its share of the Union's liability for pension rights and rights to other employment-related benefits accrued on or before 31 December 2020. The UK received the first round of reporting for the liability in March 2022 for the principal schemes described below.

2.30 The majority of the liability is composed of the Pension Scheme for European Officials (PSEO) and Joint Sickness Insurance Scheme (JSIS). The amount was not invoiced in 2021, with the first instalment for these schemes charged in the April 2022 invoice.

2.31 There was an amount charged in the September 2021 invoice for Members and EU high-level public office holders. The amount payable by the UK totalled €29mn, of which €11mn was payable in the three payments due in 2021.

Contingent financial liabilities arising from loans for financial assistance and budgetary guarantees (A143)

2.32 Under Article 143, the UK retains its share of contingent liabilities arising from financial operations undertaken by the European Investment Bank (EIB) and European Investment Fund (EIF) under Loans for Financial Assistance and Budgetary Guarantees. These are in relation to European Financial Stabilisation Mechanism, Balance of Payments, Macro-Financial Assistance, Euratom, European Fund for Strategic Investment (EFSI), European Fund for Sustainable Development (EFSD) and External Lending Mandate (ELM). The UK is only liable for operations agreed upon whilst a Member State or 'Pre-

Brexit operations'. These operations are partly backed by Guarantee Funds (GF) that will cover any losses on the operations. The UK is due its share of any part of the GF that is unused.

2.33 In March 2021, the EU reported on the full range of values required under the WA including outstanding financial operations, contingent liabilities and values of GF.

2.34 The UK received €93mn under Article 143 in 2021 in 4 monthly instalments from 30 June 2021. This related to the return of the UK's share of the GF for EFSD. The UK negotiated the return of these funds in 2021 as there were no operations under EFSD approved before 31 January 2020, and therefore the full amount of the GF was returned immediately. No further reporting will be necessary under the WA for EFSD. As expected, no repayments for other GF were made to the UK in 2021.

Financial instruments financed by the programmes of the 2014 to 2020 MFF (A144)

2.35 Financial instruments (FIs) under the scope of Article 144 make investments in and provide loans and guarantees to 'financial operations' under their specific mandate. As per the March 2021 A144 report, there were 77 financial instruments in total under the scope of the WA, managed by 10 different Entrusted Entities such as the EIB, EIF and European Bank for Reconstruction and Development.

2.36 The financial operations are fully provisioned or guaranteed by the EU budget. Under Article 144, the UK is due its share of money returning to the EU Budget from the financial operations approved before 31 January 2020. Additionally, the UK is due money from the 2020 EU budget invested in financial operations approved after 31 January 2020.

2.37 In March 2021, the EU reported on the full range of values required under the WA including Contingent Liabilities and detailed breakdowns of payments to and from Financial Instruments and operations. The UK received €46mn under Article 144 in 2021 in 4 monthly instalments from 30 June 2021. Under the WA, payments to the UK only occur via the April invoice.

Assets of the European Coal and Steel Community (ECSC), in liquidation (A145)

2.38 Under Article 145, the UK is entitled to its share of the net assets of ECSC in Liquidation as at 31 December 2020.The assets of the ECSC applicable under Article 145 as at 31 December 2020 was €1,483mn, of which the UK share is €184mn. This is to be paid back in 5 instalments from 2021 and included in the April invoice exclusively. The April 2021 invoice included a payment to the UK of €37m.

Assets of the European Investment Fund (A146)

2.39 Under Article 146, the UK is entitled to its share of the EU's investment in the paid-in share capital of the EIF as at 31 December 2020. In the April 2021 invoice the UK received €7mn. The EU's investment in the European

Investment Fund (EIF) paid-in share capital as at 31 December 2020 was €267mn of which the UK share is €33mn. This is to be paid back in 5 instalments from 2021 and included in the April invoice exclusively.

Contingent liabilities from legal cases (A147)

2.40 Under Article 147 the UK is liable for its share of the payments required to discharge the contingent liabilities of the EU that become due in relation to legal cases concerning financial interests of the EU.

2.41 The UK had already paid its share of legal case contingent liabilities up to 31 December 2020, through the UK's participation in the 2020 EU Annual Budget and those made as a Member State. The March 2021 reporting on Article 147 covered legal cases which crystallised between January and February 2021, to allow time for the reporting to be compiled. The April 2021 invoice showed a liability for €21mn under Article 147. This was payable in 4 monthly instalments from 30 June 2021.

UK receipt of paid-in EIB capital

2.42 In addition to the annual payment cycle described above, the UK's European Investment Bank (EIB) paid-in capital of €3.5bn will be returned over 12 years on 15 October, starting from 2020. This will be made in 11 equal annual instalments of €300mn and the final reimbursement will cover the balance of €196mn. The UK received the second payment during 2021.[5]

2.43 The UK will maintain a contingent liability in respect of the stock of outstanding EIB operations at the point of the UK's withdrawal, which will decrease as the underlying loans and investments are completed. Under the terms of the EU Withdrawal Act the return of the UK's EIB paid-in capital remained an asset of the Consolidated Fund unless the asset was transferred to HM Treasury. The first instalment was transferred to HM Treasury and disclosed in the departmental resource accounts for 2020-2021.[6]

EU Trust Funds and the Facility for Refugees in Turkey

2.44 The UK will also honour commitments it made to the Facility for Refugees in Turkey and the EU Trust Funds. As with EDF, these contributions count as Official Development Assistance (ODA), with bilateral contributions currently paid using powers provided in the International Development Act 2002. As such, these are reported by the Foreign Commonwealth and Development Office. Over 2021-22, the UK provided £25mn for the Facility for Refugees in Turkey.

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5 The date of the initial instalment of the return of EIB paid-in capital set out in Article 150(4) was amended by Article (1)(6)(a)(i) of Decision 1/2020 of the Withdrawal Agreement Joint Committee from 15 December 2019 to 15 October 2020 in order to account for the revised date upon which the UK left the EU.

6 HM Treasury Annual Report and Accounts 2020-21 -ARA https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1004021/HMT_ARA__web_.pdf

Non-development outstanding off-budget contributions

2.45 The WA also set out the UK's obligations to the financing of the European Defence Agency (EDA), the European Union Institute for Security Studies (EUISS), and the European Union Satellite Centre (EUSC), as well as to the common costs of Common Security and Defence Policy operations, until 31st December 2020.

2.46 The WA also sets out the UK obligations to funding the pension liabilities for the personnel of the EDA, the EUISS, and the EUSC as well as the liabilities arising from the liquidation of the Western European Union to the extent they were provisioned on 31 December 2020. The total invoiced UK liability was €55.92 million (£47.64 million) which was settled by the end of June 2021.

Post-2021 invoices and payments

2.47 The cut-off date for reporting for this edition of the European Union Finances Statement (EUFS) is 31 December 2021, as these statements will be published on a yearly basis. However, HM Treasury can confirm that the 5 outstanding monthly payments of €1,021 million each that were due under the September 2021 invoice were paid in full and on schedule.

2.48 In April 2022, a further invoice was received from the European Commission (EC) for €3,419,693,252.35 (£2,877,500,887.19) payable in 4 equal monthly payments.[7] Further details will be provided in next year's issue of the EUFS.

[7] All liabilities under the Withdrawal Agreement are settled in Euros and the Sterling value provided here is for information only and is based on the conversion rate applied by the European Central Bank on the first working day of April 2022

https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:C:2022:147:FULL&from=EN

Chapter 3

Assurance Framework and Verification Process

Verification Process on the financial settlement

3.1 Article 134 of the Withdrawal Agreement (WA) gives the UK the right to request and inspect information and underlying controls in respect of the implementation of the financial provisions, supported by appropriate administrative arrangements. The information obtained by the UK and the verification work undertaken provide assurance to the government on the implementation of the Financial Settlement and provide confidence to Parliament that what is paid and received is in accordance with the Agreement.

3.2 We have worked with the European Commission (EC) and its implementing partners to ensure their systems and controls over financial reporting are suitable for the specific requirements of the WA. We recognise that it is in the interest of both parties that the UK pays the right amount of liabilities, and receives its share of receipts, due under the WA. Technical interpretations have been produced consistent with the principles underpinning the WA. These are based on methodologies which are fair to both parties and which result in net liabilities being met at the correct time (including receipts due to the UK).

3.3 Our approach to obtaining assurance over the financial settlement is summarised in Box 3.A.

Box 3.A: Overview of the UK's Assurance Framework over the financial settlement

The assurance framework in relation to the financial settlement has been based on a risk-based approach to financial reporting, covering:

- Mapping key reporting risks to the UK; understanding where reliance can be placed on assurance processes that are unchanged from our period of European Union (EU) membership, and agreeing additional arrangements to obtain comfort over risks that were not mitigated by those controls
- A tailored approach to obtain comfort over the payments and reimbursements as they arise on an article-by-article basis and the completeness, accuracy and valuation of assets and liabilities

- Reliance, where possible, on the EC's (and other entrusted entities') independently audited financial statements and other independent data testing in order to minimise the repetition of audit work (recognising that the absence of an established reporting framework to form the basis of an assurance opinion made the appointment of a single UK auditor of the financial settlement impossible)
- The ability to trace net liabilities from the EC's audited accounts (and those of its implementing partners) to both the more detailed WA reporting obligations and to the April invoice
- Where the existing reporting and assurance does not address specific reporting risks to the UK resulting from the WA, HM Treasury has requested specific additional procedures are performed, including through the use of Agreed Upon Procedure (AUP) reports on the data underlying the EC's formal reporting to the UK. These AUP reports provide independent factual findings of tests agreed with the UK to support our assurance objectives

Reliance on the European Commission's annual accounts

3.4 The EC's annual accounts for the years ending 31 December 2020 onwards contain additional disclosures related to UK Withdrawal from the EU. Obligations in respect of the following WA provisions are covered:

- Article 136 – Provisions applicable in relation to own resources
- Article 139 – The UK's Financing Share
- Article 140 – Outstanding commitments (Reste à Liquider [RAL])
- Article 141 – Fines
- Article 142 – Union liabilities at end 2020 (EC pension schemes)
- Article 143 – Contingent financial liabilities: loans for financial assistance, European Fund for Strategic Investment [EFSI], European Fund for Sustainable Development [EFSD] & External Lending Mandate [ELM];
- Article 144 – Financial instruments (FIs)
- Article 145 – Assets of the European Coal and Steel Community (ECSC), in liquidation
- Article 146 – Investment in the European Investment Fund (EIF)
- Article 147 – Contingent liabilities related to legal cases

3.5 The EC prepares the EC annual accounts following EU Accounting Rules, which are based on the International Public Sector Accounting Standards. These are based on public sector interpretations of the International Financial

Reporting Standards (IFRS). The EU annual accounts are audited by the European Court of Auditors (ECA). The ECA conducts its audit in compliance with the International Standards on Auditing and is independent of the EC, in accordance with the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants.

3.6 The ECA is free to decide what it will audit, how it will do this, and how and when to present its findings. As a result, the ECA reports two annual opinions:

- 'True and fair' - whether the EC accounts are properly prepared in accordance with international public sector accounting standards and present a materially correct view of financial results for the year and assets and liabilities at the end of the year
- 'Legal and regular' - whether the EC accounts are made up of transactions that comply with applicable EU rules, regulations and contractual obligations

EC financial reporting delivered in March 2021

3.7 The WA specifies that the EC must provide detailed financial reporting in March of each year on net liabilities recorded at the end of the preceding year. We have worked with the EC to ensure that this reporting supports the UK's assurance requirements.

3.8 We received the March 2021 reports in line with the requirements of the WA. They reflect the UK's position at the end of the transition period of 31 December 2020 and form a basis for the net liabilities that the UK began to settle in June. The reports delivered in 2021 are summarised in Box 3.B and will be supplemented in future years to cover net liabilities which are only due from 2022, including pensions.

Box 3.B: Overview of the March reporting deliverables

- The EC provided the UK with a reporting package and supporting material comprising the following:
  - Provisional financing share of the UK (2014-2020) which is a calculation input into each component of the net liability under the WA, the financing share became final in 2022
  - Outstanding commitments at 31 December 2020 for which the UK is liable which relate to the RAL liabilities resulting from our membership of the EU
  - Contingent financial liabilities arising from loans for financial assistance and budgetary guarantees (EFSI, EFSD and the ELM), and the UK share of the provisioning in the related guarantee funds (GF)
  - Financial operations under FIs financed by the programmes of the 2014 to 2020 Multiannual Financial Framework (MFF) (or earlier financial perspective)

- Amounts to be paid in relation to contingent liabilities arising from legal cases to which the EU was a party until the end of the transition period

Determining the UK's financing share (A139)

3.9 The UK's financing share is determined by the ratio of own resources made available by the UK to all own resources made available by all Member States from 2014 to 2020. Own resources is a term used to describe Member State contributions to the EU budget. Over 2014 to 2020, these were Customs Duties, contributions based on VAT and GNI-based contributions.

3.10 The UK's financing share is applied to each component of the net liability under the WA for Articles 140 to 147. The UK's financing share was provisional for 2021 and became fixed in February 2022 when data inputs for the last year of the 2014 to 2020 MFF were finalised.

3.11 The UK performed several validation checks on the data inputs and calculation of UK's provisional financing share for 2021. This included reconciling data with publicly available information and historic data in the UK's possession.

3.12 The ECA's audit opinion covers the UK's financing share providing further assurance over the figure.

The Reste à Liquider (A140)

3.13 The Reste à Liquider (RAL) is the outstanding EU budgetary commitments and is the largest component of the WA liability. The UK is liable for budgetary commitments made up to the 31 December 2020. There are two focuses of the assurance work performed by the UK; firstly, the overall liability and secondly, the payment required in 2021 for 2020.

3.14 In 2021, the EU issued the A140 March Reports that detailed the overall RAL, UK-specific adjustments and the required payments in for 2020.

3.15 The payment in 2021 and the overall liability are included in the EU accounts in a specific Brexit disclosure note. The ECA audit opinion covers these figures, and a clean, unmodified audit opinion was given over the 2021 accounts. The UK has reconciled the values in the March report to the EU accounts with no variances noted.

3.16 The UK has challenged the EC and performed various additional validation checks to provide further assurance over the reporting and amounts payable. This includes reconciling amounts payable to the publicly available EU voted budget. Adjustments to the overall RAL have also been tested and have been reconciled financial information to published documents and historic data in the UK's possession from when it was a Member State.

Fines Revenue (A141)

3.17 HM Treasury have agreed with the EC for biannual reporting of obligations under this article to be provided. This reporting communicated a list of all fines being tracked by the EC because they were potentially within the scope of Article 141. This was inclusive of:

- Those which have become definitive by 31 December 2020 and that are still outstanding (i.e. fine outstanding amounts and amounts not yet collected as revenue and entered into the Budget)
- Those in litigation, either at the General Court or the [European?] Court of Justice
- Those for which the respondent may still contest the decision or appeal a court ruling

3.18 HM Treasury have verified all amounts for all fines that impact on the 2021 reporting to publicly available resources.

3.19 Additionally, the EU accounts contain a specific Brexit disclosure stating the amount due to the UK under Article 141. HM Treasury verified these amounts to the Brexit disclosures in the EU accounts with no variances noted.

Pensions liabilities (A142)

3.20 Liabilities related to the most significant EU pensions schemes were only due in invoices due in 2022. Further details of the assurance work over these payments in the next version of the European Union Finances Statement (EUFS).

3.21 In respect of the pension scheme for high-ranking EU officials for which amounts were payable in 2021, HM Treasury verified these amounts with no variances from Brexit disclosures in the EU accounts noted.

Contingent financial liabilities arising from loans for financial assistance and budgetary guarantees (A143)

3.22 The UK assurance arrangements for Article 143 in 2021 involved a number of procedures. Validation checks were performed over the value of the Guarantee Fund reconciling the March report values to the Financial Statements of the respective Guarantee Funds (European Fund for Strategic Investment (EFSI) Guarantee Fund, Guarantee Fund for External Action and European Fund for Sustainable Development (EFSD) Guarantee Fund. The Financial Statements included specific 'Brexit' disclosures which were covered by unmodified audit opinions.

3.23 The UK worked with the EC, European Investment Bank and European Investment Fund (EIF) to develop bespoke Brexit AUPs. These were a series of tests and procedures performed by the incumbent auditor of the European Investment Bank (EIB) and EIF that provide assurance over Contingent Liability and Outstanding Operations balances and various reflows.

3.24 Additionally, the EU accounts contain a specific Brexit disclosure stating the amount due to the UK under Article 143. The ECA's audit opinion covers the EU financial statement with an unmodified opinion issued. HM Treasury have reconciled the amounts in the disclosure to the amount payable in the April Invoice.

Financial instruments financed by the programmes of the 2014 to 2020 (A144)

3.25 The UK sought comprehensive assurance over each of the 77 financial instruments (FIs) and associated flows of money. The assurance arrangements varied depending on existing reporting arrangements. A specific Brexit disclosure was added to the financial statements of 43 FIs with an unmodified audit opinion issued for each. For the 17 FIs managed by KfW, the UK worked with the EC to develop bespoke Brexit AUPs. These were a series of procedures performed by the incumbent auditor of the KfW that provide assurance over values relevant for Article 144. For the remaining FIs, various validation checks were performed reconciling figures to audited financial statements and other publicly available financial information.

3.26 Additionally, the EU accounts contain a specific Brexit disclosure stating the amount due to the UK under Article 144. The ECA's audit opinion covers the EU financial statement with an unmodified opinion issued. HM Treasury have reconciled the amounts in the disclosure to the amount payable in the April invoice.

Assets of the European Coal and Steel Community (ECSC), in liquidation (A145)

3.27 The UK is entitled to its share of the net assets of ECSC in Liquidation as at 31 December 2020 that are to be repaid in 5 instalments. As a result, the UK recognised €0.18 billion in relation to ECSC net assets on its audited financial statements as at 31 December 2020. Additionally, the yearly amount receivable for the UK has also been reported in and agreed to the EU audited accounts.

Assets of the European Investment Fund (A146)

3.28 The UK is entitled to its share of the EU's investment in the paid-in share capital of the EIF as at 31 December 2020, to be paid back in 5 instalments. The EU's investment in the EIF paid-in share capital at 31 December 2020 was €267.4 million and was agreed to the EIF Financial Statement. The yearly amount receivable for the UK has also been reported and agreed to the EU audited accounts.

Contingent Liabilities from legal cases (A147)

3.29 HM Treasury have reconciled the list of legal cases that comprised the €20.6mn liability for the UK to publicly available court rulings. The vast majority related to Case C 797/18 P.

3.30 Additionally, the EU accounts contain a specific Brexit disclosure stating the amount due to the UK under Article 147. The ECA's audit opinion covers the EU financial statement with an unmodified opinion issued. HM Treasury have reconciled the amounts in the disclosure to the amount payable in the April Invoice.

Technical engagement and formal governance

3.31 On 30 March 2020 the WA Joint Committee (WAJC) tasked the Specialised Committee on Financial Provisions (SCFP) to start work related to implementing the financial provisions in Part V of the WA. The SCFP is co-chaired by a HM Treasury official and a representative of the EC. This formal governance has supported our assurance objectives and provides a prescribed route for escalation of any areas of disagreement to the WAJC.

3.32 Two meetings of the SCFP were held in 2021, the first was held in April 2021 to note formally delivery of the second reporting package under the WA which was provided by the EC at the end of March, and the communication on 16 April of the first document specifying the relevant amounts to be paid in 2021 in relation to the settlement of the UK's net liabilities under the WA.

3.33 The second meeting was held in November 2021, and focused on updating on the preparations for the third formal reporting package due at the end of March 2022 under the WA, identifying where further work was required to ensure this could be delivered on time and with the appropriate information.

3.34 Outside of this formal governance process, we have maintained a wide range of technical engagement on financial reporting with the EC's Directorate-General for Budget (DG BUDG) and other officials from the EC and its partners throughout 2021 and 2022. An overview of this engagement is provided in Box 3.C.

Box 3.C: Technical engagement between the UK and EU

3.35 This programme of technical engagement on the financial provisions began in 2020 and is ongoing. During that time we have:

- Held more than 100 meetings with Directorate-General for Budget workstream leads, and relevant experts from other parts of the EC and its partner institutions, on individual articles in order to agree a shared understanding of implementation requirements
- Addressed technical queries arising from delivery of these reports
- Held several high-level coordination meetings to ensure that shared objectives and milestones for reporting were met
- Met with representatives of the EIB and its auditors
- Met with the ECA to discuss the scope and nature of its audit work for the year ended 31 December 2020

3.36 A number of calculation inputs and figures contained within the WA are based on estimations or provisional figures, which are subject to adjustment in future years in accordance with the EU's financial regulations or specific provisions within the WA itself. This includes, for example, estimated payments in a given year on RAL commitments and the UK financing share percentage, which was finalised (after the cut-off date for this EUFS) in February 2022.

3.37 Where this is the case, there will be adjustments in future years once the data becomes definitive. We have agreed with the EC a methodology for adjustments and corrections which allows for adjustments:

- For errors identified by the UK or the EC in respect of invoiced amounts then corrected as part of the next monthly payment
- To correct for adjustments identified during the independent audits of the EU annual accounts and its entrusted entities and would be corrected in subsequent invoice
- Resulting from differences between forecasts and outturn. Formal governance under the WA supports our technical engagement and future corrections in the event of disagreement and would be corrected in subsequent year reporting

Limits on EU expenditure and revenue

3.38 The ceilings of the MFF set the limits for how much the EU was able to commit over the 2014 to 2020 period, and therefore ultimately spend.

3.39 The settlement freezes the ceilings of the 2014 to 2020 MFF for the UK, so that any changes agreed by Member States after the UK's withdrawal will not impact on the UK. This protected the UK during the Transition period and continues to for the lifetime of the settlement. The UK obligations to the EU's outstanding commitments at end-2020 cannot be larger than the limits agreed by the UK while it was a Member State.

3.40 The terms of the calculation of the UK's contribution, as set out in the Own Resources Decision, is also frozen post-withdrawal. This protects the UK from changes to rules for calculating revenue (including the UK's rebate) after withdrawal impacting on the UK's financial contributions.

Chapter 4

Outstanding liabilities under the Financial Settlement

4.1 This chapter covers the United Kingdom (UK)'s outstanding liabilities, giving HM Treasury's estimated value of them. Recognising that the Financial Settlement is a methodology to establish a fair balance of responsibilities and obligations and not a fixed amount, the chapter provides an overview of the main variables which could impact the figure in future. It covers the nature of the liabilities and points to where they are reported on further in government accounts.

HM Treasury's updated estimate

4.2 HM Treasury's current estimate of the total value of the Financial Settlement is £35.6 billion. The estimated remaining net liabilities as at 31 December 2021 were c.€29.0 billon (c.£24.6 billon). HM Treasury will provide an update of this liability each year, as payments are made.

Table 4.A: Financial Settlement Payment Breakdown

Component (billion)	(€ billions)	(£ billions)[1]	Time Period
Total Net Financial Settlement	42.4	35.6	Feb 2020 - 2065
Net Payments (to end-2021)	13.4	11.0	Feb 2020-Dec 2021
Net Payments (outstanding from 2022)[2]	29.0	24.6	2022-2065
of which: invoiced in September '21[3]	5.1	4.3	Jan -May 2022
of which: estimated Jan - May '22 Receipts	-1.3	-1.1	Jan -May 2022
of which: forecast Payments from June 2022)	25.2	21.3	June 2022-2065

1 Based on the spot rate euro/sterling exchange rate on 31st March 2022. The rate on each day is £1 = €1.18.

2 Due to rounding, totals may not exactly correspond to the sum of individual items.

3 Outturn payments may vary due to the Financial Settlement being in euro denomination.

Contingent liabilities

4.3 Under the terms of the Withdrawal Agreement (WA), the UK will maintain contingent liabilities to the European Union (EU). Contingent liabilities refer to the present value of a payment obligation with uncertain value or likelihood of crystallising; or possible obligations based on uncertain future events. The EU guarantees financial operations that its 'Implementing Partners', predominantly the European Investment Bank (EIB) and European

Investment Fund (EIF), invest in. This creates a potential commitment to reimburse any future losses on the financial operations that the implementing partners incur. Under Articles 143 and 150, the UK remains liable for its share of the losses on financial operations approved before 31 January 2020.

4.4 For the financial operations covered under Article 143, a proportion of the contingent liability is provisioned from the EU Budget under budgetary guarantees that the UK contributed to whilst part of the EU. For any losses greater than the amount in budgetary guarantees, the UK would have an obligation to reimburse the EU similar to the other Member States. In the case that the budgetary guarantees are sufficient to reimburse the losses on the financial operations, any amounts not used will be returned to the UK creating a net financial benefit to the UK. The Contingent Liability under Article 143 as at 31 December 2021 is €12.3bn. This compares to €12.9bn as at 31 December 2020.

4.5 Similarly, under Article 150, the UK remains liable for financial operations approved by the EIB before the withdrawal date. The UK has paid in capital in the EIB that is being returned to the UK on a yearly basis. The contingent liability is in the form of the callable capital subscription to the EIB. The EU may call upon this if there are losses on financial operations greater than the paid in capital. The remote contingent liability is valued at £30.7 billion, as at 31 March 2021.[1] Further details on these remote contingent liabilities related to the financial settlement are set out in HM Treasury Accounts for 2020 to 2021.[2]

Factors affecting the size of the settlement

4.6 The final value of the settlement, by its nature, cannot be known definitively at present, since it requires the UK and EU to pay only those amounts that fall due, rather than on the basis of an estimate.

4.7 HM Treasury has conducted sensitivity analysis on the Financial Settlement to identify the impact that a change in key individual variables would have on the overall settlement value.

4.8 A key principle of the Financial Settlement is that the UK will only pay towards EU obligations that actually materialise. Forecasts of the settlement therefore include an estimate of the EU spending that will be decommitted (planned, but ultimately never spent). The effect of a 1% absolute change in decommitments on the HM Treasury net estimate is estimated to be £120mn

4.9 Under the terms of the Financial Settlement, the UK continued to make its budget contribution in 2020 in sterling but began settling its post-2020

[1] Pg 117
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1004021/HMT_ARA__web_.pdf

[2] See note 9 of HM Treasury's Accounts (p. 175) on Trade and other receivables
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1004021/HMT_ARA__web_.pdf

obligations in euro. As a result, any movements in the euro/sterling exchange rate may affect the value of the settlement. The effect of a 1% change in the sterling/euro exchange rate on the HM Treasury net estimate is estimated to be £260mn

4.10 A material EU liability included in the Financial Settlement is in relation to EU pensions and other employment related benefits accrued by the end of 2020. These are predominantly unfunded defined benefit schemes where the final amounts paid to beneficiaries are affected by a number of factors, including the final salaries of the employees, their years of service and the length of time they live in retirement. The amount the UK pays will be affected by these factors. However, because the UK is only required to pay these amounts as they fall due many of the uncertainties in estimating future pension liabilities now (like the choice of discount rate used to convert the future flows into a lump sum amount) will not affect what the UK pays, unless the UK chooses to settle the obligation early, as provided for in the WA. The effect of 0.1% decrease in the discount rate applied to the UK share of EU pensions increases the estimate of the Financial Settlement by £290mn

4.11 The UK will continue to stand behind contingent liabilities arising from EU financial operations approved before withdrawal. Several of these instruments have associated guarantee funds (GF). These funds are held on the EU's balance sheet. The extent of returns to the UK from these funds will depend on the financial performance of the funds and the underlying investments that are covered by the guarantees[3]

Off-budget funds outside the Financial Settlement

4.12 There are a number of areas where funds, mechanisms and organisations have been established outside the EU Treaties through separate international agreements but are managed by EU institutions or are in close alignment with EU policies. The WA makes provision for these to ensure there is certainty on how they will be treated. These mainly relate to international development funding, where UK contributions are treated as Official Development Assistance (ODA) and count towards the UK's ODA spending target. They are set out in the Foreign Commonwealth & Development Office's Annual Report & Accounts (2020 to 2021).

[3] HMT uses a model to produce a base-case assessment of cashflow in respect of financial instruments. Certain assumptions can, if required, be updated to produce cashflow on a stressed basis, including changes to credit ratings, recovery rates and returns on assets/funds

Table 4.B: Outstanding off-budget development contributions, as at 31 December 2021

Outstanding off-budget contributions (as at 31 December 2021	(€ millions)	(£ millions)[1]
European Development Fund[2]	1,139	964
Facility for Refugees in Turkey[3]	48	40

1 Based on the spot rate euro/sterling exchange rate on 31st March 2022. The rate on each day is £1 = €1.18.

2 HM Treasury calculations using EDF internal agreements and EU Commission annual communications forecasting commitments, payments and contributions from Member States.

3 Combined total of the UK's outstanding contribution to the first tranche of the Facility (which is sourced from DFID's Development Tracker: https://devtracker.dfid.gov.uk/projects/GB-GOV-1-300287/documents) and the UK's share of the second tranche, based on internal DFID/EU Commission figures.

European Development Fund

4.13 The most recent statements from the EC detail contributions in 2021 from Member States and forecasts of commitments, payments and contributions from Member States for 2022 and 2023; and non-binding forecasts for the years 2024 to 2025. Although the EC has not yet produced contribution forecasts for years after 2026, the government expects European Development Fund (EDF) contributions to continue until c. 2027 to 2030 as projects the UK is committed to are implemented and finalised.

4.14 The EIB African, Caribbean and Pacific (ACP) Investment Facility managed by the EIB focusses predominantly on private sector development in ACP countries (and a limited number of EU Overseas Territories) and is funded by EU Member States through the EDF. A total of €3.7 billion of EDF contributions has been committed to a revolving fund in the IF, which invests in assets (e.g. loans, equity) that generate reflows to the facility for reinvestment on a self-sustaining basis.[4] The WA confirms that the UK's share of the facility will be returned to the UK as the investments mature, unless agreed otherwise. At the end of 2021, the UK's share is estimated to be around €0.5 billon[5] (£0.4 billon), less any loss.

4.15 Under the terms of the WA, the UK will also remain liable in respect of its guarantee to EIB own resources lending to ACP countries and the Overseas Countries and Territories, as laid out in the EDF financing protocols under the Cotonou Agreement. Any calls on this guarantee would need to be met collectively by the UK and other EDF contributors in proportion to their respective shares in the agreements. Subsequently, the UK will be entitled to any share of amounts recovered in the event of a guarantee pay-out. As at 31 December 2021, the UK's total contingent liability on EIB loans under

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4 https://www.eib.org/en/projects/regions/acp/applying-for-loan/investment-facility/index.htm ; https://www.eca.europa.eu/Lists/ECADocuments/SR15_14/SR_INVESTMENTS_EN.pdf

5 This figure is based on the UK's share of total Investment Facility for the 9th, 10th and 11th EDF's, as detailed in their respective Internal Agreements

these guarantees was €0.2 billion[6] (£0.1 billion) over a period up to and including 2050. Under the terms of the WA, the UK will honour its contingent liabilities under this guarantee in full, which includes loans approved up to the end of 2020.

Table 4.C: UK contributions and forecast contributions to EDF, as at 31 December 2021

Year	(€ millions)	(£ millions)
2022	235	199
2023	308	261
2024	264	223
2025	133	113

Source: EC Communication October 2021.

Based on the spot rate euro/sterling exchange rate on 31stMarch 2022, £1 = €1.18.

The Facility for Refugees in Turkey

4.16 The UK has remaining commitments to the Facility for Refugees in Turkey described in paragraph 2.44. As with EDF, these contributions count as ODA, with bilateral contributions currently paid using powers provided in the International Development Act 2002. As at 31 December 2021 the UK's outstanding payments came to €48mn (£40mn).

Non-development outstanding off-budget contributions

4.17 As detailed in paragraph 2.45, the UK has obligations to the European Defence Agency (EDA), the European Union Institute for Security Studies (EUISS), and the European Union Satellite Centre (EUSC), as well as to the common costs of Common Security and Defence Policy operations (CSDP).

Treatment of the Financial Settlement in government accounts

4.18 Now that the UK is no longer an EU Member State, payments to the EU under the WA are now accounted for in HM Treasury's Accounts. These include our obligation to outstanding commitments and liabilities, as well as accounting for the return of the UK share of EU assets. There may be other non-WA related payments to the EU by UK Government Departments which would be covered in their respective annual accounts.

4.19 Payments of receipts from the EU to UK entities are treated in national and government accounts in different ways, depending on whether a

[6] EIB-Member State - Guarantee Agreements (Cotonou I II III) - UK – 2021 1st half year report.

government body administers those receipts. Receipts that are administered by a government body are classified as public sector receipts in public expenditure statistics and are typically reported in the administering department's accounts. Although they are classified as 'public sector' receipts, they are in fact typically destined for the private sector (such as the Common Agricultural Policy, paid by managing authorities to the private sector). The remaining receipts received by the UK are paid directly from the EU to private sector beneficiaries and these funds do not flow through the public finances. UK central government accounts are prepared in accordance with the HM Treasury Financial Reporting Manual (FReM) and the Government Resources and Accounts Act 2000. The accounting standards contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

4.20 HM Treasury Accounts for 2020 to 2021 were published in July 2021. HM Treasury recognised a provision representing its liability for the amounts it needed to pay to the EU as of 31 March 2021. This included, for example, the UK's share of the EU's outstanding commitments at the end of 2020 (the so-called RAL). This did not reflect the complete Financial Settlement and therefore does not present the 'cost' of the Financial Settlement, as shown above. HM Treasury accounts also disclosed other contingent items relating to EU financial obligations covered by the WA.

4.21 The return of the UK's paid in capital in the EIB appear in the HM Treasury Accounts. In addition, the contingent liability the UK maintains under the WA is included in respect of any potential call after 31 March 2021.

OLAF (Chinese Textiles) Infraction

4.22 The Court of Justice of the European Union (CJEU) issued a judgement in March 2022 relating to the alleged underpayment of customs duties on Chinese textiles and footwear. The Court determined that the UK had failed to pay amounts of Traditional Own Resources (TOR) relating to customs duty it failed to collect, and that such TOR was due to the EC. Under the EU Withdrawal Act, the UK must fulfil its legal obligations following this judgement to pay outstanding TOR relating to outstanding custom duties.

4.23 Following the judgment, the UK is liable for both outstanding customs duties and interest. With this in mind, and in order to protect UK taxpayers from significant continued interest accrual, the UK made a payment on 10 June 2022 to the EC of €678,372,885.63. This paid in full the amount due regarding cancelled customs assessments. Further details were provided in the Written Ministerial Statement[7].

[7] The Written Ministerial Statement, Statement UIN HCWS167, can be found at https://questions-statements.parliament.uk/written-statements/detail/2022-06-30/hcws167

Global Margins for Commitments

4.24 The EU proposed a range of budgetary responses to respond to the pressures of COVID-19, which increased in-year commitment appropriations for the EU annual budget 2020. As set out in the previous EUFS, the EC has confirmed that the UK has no liability to contribute in respect of certain of these appropriations because of the protections secured in the WA. However, discussions with the EU have continued over an area of special instrument use, the 'Global Margins for Commitments', which the EC deemed the UK liable for. These discussions have taken place in compliance with the governance structures set out under the WA.

Chapter 5

Financial Commitments under the Trade and Cooperation Agreement

5.1 The United Kingdom (UK) – European Union (EU) Trade and Cooperation Agreement (TCA) was announced on 24 December 2020. It was then signed and adopted by the United Kingdom Parliament on 30 December 2020 before being ratified in April 2021. Among other things, the TCA governs the UK's participation in a limited number of EU programmes as a third country: Horizon Europe (Research and Development), Euratom Research and Training (R&T), Fusion for Energy (Nuclear Research) and Copernicus (Earth Observation). The UK association to these programmes is currently stalled.

The Trade and Cooperation Agreement

5.2 Part 5 of the TCA sets out the cross-cutting terms and conditions for the UK's participation in and access to EU programmes. These provide for a fair and appropriate financial contribution towards the programmes, fair treatment of UK participants, appropriate governance arrangements and balanced provisions to ensure the sound financial management of programme funds.

5.3 Part 5 of the TCA is complemented by a financial annex specifying the implementation of the financial conditions and the Joint Declaration on Participation in Union Programmes. This includes draft Protocols establishing UK association to Horizon Europe, Euratom Research and Training (R&T), Fusion for Energy, and Copernicus, in addition to free access to services from the EU Space Surveillance and Tracking programme for the duration of the 2021 to 2027 Multiannual Financial Framework (MFF). It remains the government's intention to adopt the draft Protocols at the earliest opportunity.

Cost of Association

5.4 Once associated, the UK will make a proportionate contribution based on the Horizon Europe, Copernicus, Euratom R&T, and Fusion for Energy programme budgets and an administrative contribution for the cost of running these programmes. These costs must be within an overall ceiling set by EU's 2021 to 2027 MFF. The UK has financial protections in place under the TCA, including against large increases to the programme budgets. The UK is not required to make a financial contribution to access services from the EU Space Surveillance and Tracking programme.

5.5 The exact cost of participation to Horizon Europe, Copernicus, Euratom R&T and Fusion for Energy will be determined annually in line with the terms set out in the agreement and reported by government in departmental accounts. The UK will also be a beneficiary from these programmes as UK participants in the programmes will receive receipts, which represent a financial benefit to the UK. However, these are not recorded in the government accounts as the programmes are managed by the EU who will directly distribute funding to beneficiaries.

5.6 While exact costs will be calculated annually, the government has made provisions under the 2021 Spending Review for the cost of participation, based on estimates. As set out previously, the current estimate for the cost of participation over this Parliament is £7 billon.[1]

5.7 However, EU programme budgets are agreed for the entire MFF, running from 2021 to 2027. Our current estimate for the total cost of participation in all three programmes over the 7-year MFF is around £17 billon. This breaks down to approximately £15 billon for Horizon Europe, £1.2 billon for Euratom R&T and Fussion4Energy, and £0.8 billon for Copernicus. These figures are estimates and are sensitive to several underlying assumptions regarding participation. The principal factors effecting the estimates are; that the UK's contributions is determined by its relative GDP share and are based on EU programme budgets, fluctuations in foreign exchange rates, and the application of any detailed financial terms in the agreement. As set out above, the exact cost of participation will be determined annually.

Future Reporting

5.8 With the UK's exit from the EU, responsibility for managing these obligations has moved from a central model, managed by HM Treasury, to the delegated departments responsible for programme policy. For Horizon Europe, Euratom R&T and Fusion for Energy this responsibility falls to the Department for Business, Energy and Industrial Strategy. For Copernicus this responsibility lies with the Department for Environment, Food and Rural Affairs. The relevant government department is now responsible for management of participation in each respective EU programme and payment under the TCA from within departments delegated expenditure limits set through the Spending Review.

5.9 Consequently, departments delivering the programmes are also now responsible for reporting to Parliament on implementation of the TCA, including setting out financial contributions made to the EU and receipts received by the UK where applicable. UK contributions will be reported in departments' annual report and accounts and as part of normal budgetary disclosures in the supply estimates delivered to Parliament. HM Treasury does not intend to report on this as part of future iterations of this document.

[1] As published in the Autumn Budget and Spending Review 2021, estimates are rounded to the nearest billion. The full Autumn Budget and Spending Review 2021 can be found at https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents

Peace Plus

5.10 In the Joint Declaration on Participation in the Union Programmes and Access to Programme Services, the UK and the EU recalled their commitments to the Peace Plus programme, which is the subject of a separate financing agreement. The government remains deeply committed to Peace Plus and confirmed in September 2021 that the UK will be investing more than £0.7 billion[2] into the programme to support economic stability, peace and reconciliation in Northern Ireland. This represents almost 75% of the total budget of almost £1 billion – the biggest Peace programme to date – and delivers in full on the UK's commitments to the programme.

5.11 The government is working with the European Commission, the Irish government and the Northern Ireland Executive to finalise the text of the future UK-EU Financing Agreement on Peace Plus. The Agreement sets out the UK's total and annual financial contributions to the programme, balanced provisions to ensure the sound financial management of the programme funds and appropriate governance arrangements. Negotiations are ongoing and expected to conclude this year.

[2] This figure has been calculated from the total figure in Euros, using an exchange rate of £1:€1.16448, noting this will change over the Programme period. This figure also includes match funding from the Northern Ireland Executive.

Annex A

Technical annex on forecast methodologies

A.1 This annex reviews the government's original estimated 'cost' range of the Financial Settlement and compares it to HM Treasury's revised point estimate. HM Treasury's reporting framework and accounting methodologies are then explained and compared to the Office of Budget Responsibility (OBR) and the European Commission (EC)'s approaches, to account for the differences in their respective estimations.

HM Treasury's new point estimate in relation to the original range of the settlement

A.2 In the last edition of the EUFS, the government's settlement estimate was based on the UK's actual departure date and excluded Article 50 extension payments. This figure was then adjusted for the original exit date, producing a second figure, which could be reconciled with the central range on a like-for-like basis.

A.3 Publishing two figures alongside one another this way complicated stakeholder understanding, especially as the cause of the difference (delay in the original exit date) has become increasingly remote.

A.4 This edition aims to simplify the presentation to produce a clearer narrative by giving only one figure to reconcile with the original range. This year's edition follows the recommendations from the European Scrutiny Committee in relation to how the information is presented in this year's document. Figures for the total amount invoiced and paid in 2021 (Chapter 2, paragraphs 2.16 to 17) and for the estimated total outstanding (Chapter 4, paragraph 4.2) are set out in the main body of the text.

A.5 While we consider those figures to be the most helpful in understanding the size of the financial settlement, HM Treasury has also calculated estimates based on the previous methodology to aid comparability with past statements, and as set out below.

A.6 Following the publication of the Joint Report from the Negotiators of the European Union and the United Kingdom (UK) government in December 2017, the government provided a reasonable central estimate of the size of the Financial Settlement of €40 to 45 billion or £35 to 39 billion, based on the exchange rate and assumptions at the time.

A.7 The current estimate calculated on the same basis as the original range is £42.5 billion. This corresponds to the Treasury's current point estimate of the financial settlement, £35.6 billion (as set out in Table 4.A), plus £6.9 billion in net membership contributions provided to the EU over the extension Article 50. It is presented in Table A.1 to enable comparison with the original range.

A.8 The latest estimate falls outside the range of the original reasonable estimate, above. This is primarily due to the increase in the estimation of the UK's share of Article 142 pensions costs due to current economic conditions, namely additional inflationary pressures. The Treasury's modelling of all assets and liabilities is constructed using the latest economic and budgetary data for accuracy and reliability of estimation.

Table A.1: Comparison of original range to new HM Treasury point estimate

Component of the settlement (bn)	Original Range	Treasury point estimate (31st December 2021)
Net Budgetary Contributions to end 2020	€17-18	€18.7
Of Which: Contributions over Article 50 Extension[1]	-	€7.8
Contributions over Transition Period	-	€10.9
Reste à Liquider (RAL) (net) from end 2020	€21-23	€23.8
Assets and Liabilities	€2-4	€7.5
Financial Settlement including A50 extension[2]	**€40-45**	**€50.2**
	£35-39	**£42.5[3]**

1 Estimated contributions and receipts, sent and received by the UK over the Article 50 Extension, April 2019 - January 2020.

2 Due to rounding, totals may not exactly correspond to the sum of individual items.

3 Original range is based on spot rate euro/sterling exchange rate at the time of the Joint Report in December 2017. The Treasury sterling point estimate at 31 March 2021 is based on the spot rate euro/sterling exchange rate on 31 March 2022. The rate on each day is £1 = €1.18.

A.9 The UK point estimate takes into account the following:

- **Payments made during the Article 50 extension**: the Financial Settlement was originally agreed in December 2017 on the assumption that the UK would leave the EU on 29 March 2019. Due to the extensions to Article 50, some UK and EU payments that would originally have been paid post-withdrawal were instead paid while the UK remained a Member State. Net contributions during the Article 50 extension (that is between April 2019 and January 2020) are identified and included here to support comparison on a like-for-like basis with the original estimated range

- **Payments made during the Transition Period**: HM Treasury's estimate also includes net UK contributions to the EU budget during the transition period, between 31 January and 31 December 2020. This inclusion also ensures the estimate is reconcilable to the original range

- **Payments during 2021**: as detailed in Chapter 2, HM Treasury's estimate includes instalments from the April and September invoices paid in 2021

- **Outstanding liabilities:** as detailed in Chapter 4, HM Treasury's estimate includes outstanding instalments from the September invoice and an updated forecast of liabilities from June 2022 onwards

Alternative methodologies

A.10 The OBR and EC produce their own estimates using different reporting methodologies. The result is three different estimated figures.

Comparison with the OBR forecast

A.11 Since March 2018, the OBR have produced an estimate of the size of the Financial Settlement at each Spring Statement/Autumn Budget. This estimate is reported in their Economic and Fiscal Outlook (EFO), which is laid before Parliament.

A.12 There are some important differences between the OBR forecast and the Treasury's estimate:

- **Modelling and data sources:** unlike the OBR's estimate, the Treasury's revised estimate uses a combination of public and non-public sources. Non-public data sources can provide more granular and up to date data. For example, using EU monthly Budget implementation data provided to the UK and Member States enables more granular bottom-up modelling of the Reste à Liquider (RAL)

- **Exchange rate:** the OBR uses a forward-looking exchange rate forecast, while the government does not have a target for the sterling exchange rate and does not generally comment on currency movements. The updated Treasury estimate uses the spot rate at the end of the 2021 to 2022 financial year

- **Pensions liability**: the OBR does not discount any aspect of the Financial Settlement. The OBR forecast future public expenditure flows from the Financial Settlement as they would in their fiscal forecast. In contrast, and in line with the 2017 reasonable central estimate, the Treasury's estimate continues to use a discounted valuation of the UK's EU pensions liability. The effect of discounting this liability is significant because the future cash flows are spread over many decades into the future. The Withdrawal Agreement (WA) provides the option for the UK to settle pension obligations early (if the UK so choses), based upon a discounted amount. This distinction in methodology is the largest source of difference between the two estimates

- **The payment dates considered differ:** unlike HM Treasury, the OBR's estimate focuses on the payments to be paid over the fiscal forecast period, rather than the full length of the Financial Settlement

Table A.2: Comparison between Treasury estimate and the OBR forecast

	Amount based on 31st January 2020 exit (£bn)
OBR estimate (Payments under Financial Settlement between 2021-27)[1]	**15.9**
Payments made and forecast outside of 2021-27	17.2
Exchange rate differences	0.3
Discounting for Pensions Liability	1.7
Modelling and data source differences	0.4
HM Treasury estimate (31st December 2021)	**35.6**

1 OBR – March 2022 Economic and fiscal outlook fiscal supplementary tables: expenditure: Table 3.12

Comparison with the EC's published accounts

A.13 In July 2021, the EC published an estimate of the UK's liability under the Financial Settlement of €41.8 billion in its annual accounts.[1] There are several important differences in which account for the differences between HM Treasury's estimate and that of the EC:

- **Direct payments only:** the EC's estimate, unlike the Treasury's and OBR's, includes only those payments made between the EU and UK government. This excludes payments made directly to a third party or via a body, legally distinct from the EU budget, such as:
  - Payments which will be made to UK recipients for the remaining life of EU funding programmes commenced before the end of the transition period from EU funding programmes
  - The UK's €3.5 billion of uncalled capital, held and due to be refunded by the European Investment Bank (EIB) over the next 11 years
- **The payment dates included differ**: the EC's estimate only refers to UK payments to the EU from 1 January 2021, the formal exit date. Therefore, the EC excludes payments made during the Transition Period, which are included in the HM Treasury estimate
- **WA components included:** unlike the UK the EU does not include a forecast or estimate for all components of the settlement, part of these are the indirect payments as mentioned above, but also liabilities and assets that have not crystalised. This is because for the purpose of the EU's estimate is to provide an accounting estimate of known costs to and from the EU. Whereas Treasury's estimate is to provide the public with a fair and accurate cost estimate of the total Financial Settlement, which includes estimates of receipts that are expected to be received

A.14 Due to the reasons above, the Treasury's estimate of the net Financial Settlement and the EC's accounting valuation of the EU's liability under the WA are not directly comparable. However, under the terms of the WA, the

1 The EU's Annual accounts can be found at: https://ec.europa.eu/info/publications/annual-accounts_en

data used for both estimates is consistent. Additionally, there are valid differences in assumptions which create some divergences, primarily due to the objectives of each estimate.

Annex B

Residual receipts from the 2014 to 2020 Multi-annual Financial Framework (MFF)

Financial management and anti-fraud summary

B.1 The United Kingdom (UK) continues to manage the funding it receives under the 2014 to 2020 MFF and ensure the proper use of European Union (EU) funds, but it is no longer actively involved in the management of the EU budget as a Member State, so the reports below relating to financial management and anti-fraud issues have less relevance to the UK's position than in previous years.

- European Court of Auditors (ECA) annual report on the 2020 EU Budget: The ECA is the EU's independent auditor and is responsible for assessing the accounts and payments of EU institutions.[1] The ECA is required to provide the European Parliament and Council with an annual report on the implementation of the EU Budget.

- ECA's Statement of Assurance: Within the ECA annual report, there is a Statement of Assurance. In the ECA's opinion, the 2020 EU Budget accounts were reliable and gave a fair representation of the financial position, the results of its operations, its cash flows and the changes in its net assets for the year. The ECA considers an estimated error rate above 2% to be material. The ECA found that payments (EU spending) continued to be affected by material error with an estimated error rate of 2.7% for the 2020 EU Budget as a whole, no increase since the 2019 budget.

- Council recommendation to the European Parliament on Discharge: On 3 March 2022, the Council noted both the ECA's Statement of Assurance on the implementation of the EU Budget for the financial year 2020 and the ECA's analysis of the audit finding and conclusions.[2] The Council noted that the ECA had given an adverse opinion, on the legality and regularity of payments, after finding that high-risk expenditure was

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[1] The European Court of Auditors annual report on the 20202019 EU Budget can be found at: https://www.eca.europa.eu/Lists/ECADocuments/annualreports-2019/annualreports-2019_EN.pdf https://www.eca.europa.eu/Lists/ECADocuments/annualreports-2020/annualreports-2020_EN.pdf

[2] The Council recommendation on the discharge to be given to the Commission in respect of the implementation of the general budget of the European Union for the financial year 2020 can be found at: https://ec.europa.eu/info/publications/discharge-2019-council-recommendations_en https://www.europarl.europa.eu/cmsdata/246141/CONS_CONS(2022)06001_REV01_EN.pdf

increasingly affected by material error and represents over half of the audit population.

- **The European Parliament takes a financial decision on whether to discharge the EU budget:** On 4 May 2022, the European Parliament formally approved the discharge of the EU budget accounts for 2020 and issued their Resolution.[3] It did so having considered the ECA's report, the European Commission (EC)'s response, and the recommendation of the Council.

- **Fight against Fraud Report 2020:** The EU and its Member States share responsibility for protecting the Union's financial interests and fighting fraud. Member States adopted a wide range of measures at national level, to improve their capabilities to prevent and detect fraud. Several key events and measures in 2020 and the first half of 2021 have enabled the EU to provide better protection of the EU's financial interests. This is further explained in report.[4]

B.2 **Twenty-second Report of the European Anti-Fraud Office:** The European Anti-Fraud Office (OLAF) is a body which carries out independent investigations into fraud, corruption and other illegal activities affecting the EU. It also develops anti-fraud policy for the EC. Every year, the OLAF Director publishes a report on the activities of the Office over the previous year. The twenty-second report which is the latest issued in June 2022, gave a summary of OLAF's achievements in 2021, supported by statistics and case studies.[5]

Government strategy for use of EU funds and managing disallowances summary

B.3 Under the Withdrawal Agreement (WA) the UK will continue to participate in programmes funded under the 2014 to 2020 MFF until their closure and benefit from the rights and obligations under them. As part of this continued participation, the government's overall approach to the EU budget remains to be to maximise the value for money and impact of EU spending that takes place in the UK by implementing clear strategies relating to the use of EU funds.

B.4 Reflecting the different nature of the various funds, the government has a series of strategies in place for the effective management of each of the main EU funds in the UK. Where relevant, for national allocations of EU funds, strategy documents were agreed with the EC at the beginning of the programming period, setting out intended results and priorities to achieve maximum value for money. These are agreed in line with both EU and clearly defined domestic priorities, and typically reviewed at the midpoint of each

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3 2020 discharge: EU general budget – European Parliament can be found at:
https://www.europarl.europa.eu/doceo/document/TA-9-2022-0145_EN.pdf

4 The 2020 Fight against Fraud Report can be found at:
https://ec.europa.eu/anti-fraud/system/files/2021-11/pif_report_2020_en.pdf

5 OLAF's twenty-second activity report can be found at:
https://ec.europa.eu/anti-fraud/system/files/2022-06/olaf-report-2021_en_2.pdf

programming period to reflect the latest outlook on economic and social positions.

B.5 The funds which the UK is participating in are the Common Agricultural Policy (CAP) Pillar 1, and European Structural and Investment Funds (ESIF). ESIF programmes for the 2014 to 2020 MFF are still operational across the UK and will continue spending until end of December 2023 after which they will be closed.

B.6 CAP Pillar 1, funded through the European Agricultural Guarantee Fund (GF), primarily involves direct payments to farmers and was the largest source of UK receipts. The UK left the CAP direct payments scheme in 2020, as 2020 scheme year payments were funded from the 2021 EU budget, to which the UK did not make a contribution.

B.7 CAP direct payments offer poor value for money. Department for Environment, Food and Rural Affairs (DEFRA) is committed to phasing out these payments in England over a seven-year agricultural transition period, 2021 to 2027.[6] Progressive reductions will be applied to farmers' direct payments from the 2021 scheme year. DEFRA will make the money saved from Direct Payment reductions available through schemes, grants and other types of support for farmers to manage land and their businesses more sustainably. Whilst the existing CAP schemes still operate in England, DEFRA is simplifying the rules that farmers and other beneficiaries must adhere to. This includes making simplifications to the 2020 and 2021 direct payments schemes.

B.8 The ESIFs include the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development, sometimes referred to as the second pillar of CAP) and the European Maritime and Fisheries Fund (EMFF). These make up the second largest proportion of UK public sector receipts from the EU and involve investment in the real economy by supporting job creation and economic growth. The UK Partnership Agreement[7] sets out the plans and priorities for the deployment of these funds to complement EU and UK objectives on sustainable jobs and growth, and again reflects the government's overall approach set out above. The Agreement was formed by working closely with devolved administrations and with Local Enterprise Partnerships in England.

B.9 For the 2014 to 2020 programming period, the UK decided that the overall objectives for ESIFs would include:

- promoting sustainable and quality employment, and supporting labour mobility
- increasing the competitiveness of small and medium-sized enterprises and support entrepreneurism

6 DEFRA's transition plan can be found at: https://www.gov.uk/government/publications/agricultural-transition-plan-2021-to-2024

7 The UK Partnership Agreement can be found at: https://www.gov.uk/government/publications/european-structural-and-investment-funds-uk-partnership-agreement

- improving the commercialisation of research and development, including through encouraging more firms to innovate
- contributing towards improving access to, use of and quality of information and communications technology including improving superfast broadband infrastructure
- developing infrastructure, supporting low carbon transport solutions particularly in urban areas, encouraging technological innovation and promoting energy efficiency
- improving infrastructure in less developed regions where poor connectivity contributes to market failure

Government strategy for minimising disallowance

B.10 As part of its oversight of EU Budget spending, the EC can impose financial corrections on Member States for failing to apply EU Regulations correctly in managing and administering EU schemes. In such circumstances, the EU reduces the amount paid to the Member State. These corrections are known as 'disallowance'. The UK will continue to be subject to financial corrections until all programmes for the 2014 to 2020 MFF have closed.

B.11 The government has taken, and will continue to take, the issue of disallowance very seriously, especially in those areas that constitute a material element of public spending in that policy area, such as CAP. As set out in the November 2016 response to the Public Accounts Committee, the Treasury exercises close oversight of the disallowance incurred by departments. For example, the Treasury coordinates the annual UK response to the ECA audit findings and, for financial errors identified by the ECA, departments are required to respond to every case and implement any required follow-up actions. Errors identified by the ECA do not necessarily lead to actual disallowance, but the ECA's findings are often followed up by the EC's conformity audits. The EC is the only actor that can apply a financial correction.

B.12 The government strategy for managing down disallowance risks consists of:

- clear central oversight and clear lines of accountability through the Treasury to departments
- focussing efforts and investment on early identification of risks and sharing best practice where appropriate
- while a Member State, we engaged with the EU on rules governing expenditure to minimise errors which are attributable to the complexity of the regulations governing programme participation

B.13 Robust governance and accountability arrangements are an integral part of the government's strategy for managing down the risk of financial corrections. Individual departments are accountable for developing and implementing strategies for managing expenditure risks. As part of this, departments ensure all checks on EU spending are robust, monitoring the results of audits to inform improvements. Departments and agencies managing EU funds within England have been asked to identify the main areas where they risk disallowance being imposed and implement measures to address these where it is cost-effective to do so. Appropriate measures will vary between departments and funds and are set out more fully in department reporting/publications.[8]

8 Details of some of these measures can be found here:

Rural development programme: https://www.gov.uk/government/organisations/rural-development-programme-for-england-network

ERDF: https://www.gov.uk/government/publications/european-regional-development-fund-annual-implementation-reports

ESF: https://www.gov.uk/government/publications/annual-implementation-report-2020

EMFF UK: https://www.gov.uk/guidance/european-maritime-and-fisheries-fund-emff-uk-managing-authority-ukma

Annex C
Glossary

Table 5.A: Acronym Definitions

Acronym	Definition
A	
ACP	African, Caribbean and Pacific
AUP	Agreed Upon Procedures
C	
CJEU	Courts of Justice of the European Union
CSDP	Common Security and Defence Policy operations
D	
DEFRA	Department for Environment, Food & Rural Affairs
DG BUDG	European Commission's Department for Budget
E	
EC	European Commission
ECA	European Court of Auditors
ECSC	European Coal and Steel Community
EDA	European Defence Agency
EDF	European Development Fund
EFSD	European Fund for Sustainable Development
EFSI	European Fund for Strategic Investment
EIB	European Investment Bank
EIF	European Investment Fund
ELM	External Lending Mandate
EMFF	European Maritime and Fisheries Fund
EPPO	European Public Prosecutor's Office
ERDF	European Regional Development Fund
ESF	European Social Fund

ESIF	European Structural and Investment Funds
EUFS	European Union Finances Statement
EUISS	European Union Institute for Security Studies
EUSC	European Union Satellite Centre
F	
FI	Financial Instrument
FreM	Financial reporting Manual
G	
GF	Guarantee Funds
I	
IFRS	International Financial Reporting Standards
M	
MFF	Multiannual Financial Framework
O	
OBR	Office of Budget Responsibility
ODA	Official Development Assistance
OLAF	European Anti-Fraud Office
R	
RAL	Reste à Liquider
S	
SCFP	Specialised Committee on Financial Provisions
T	
TCA	Trade and Cooperation Agreement
TOR	Traditional Own Resources
W	
WA	Withdrawal Agreement
WAA	The European Union (Withdrawal Agreement) Act 2020
WAJC	Withdrawal Agreement Joint Committee
WEU	Western European Union

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