HM Treasury

European Union Finances 2013:

statement on the 2013 EU Budget and measures to counter fraud and financial mismanagement

Cm 8740

November 2013

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Contents

1 Introduction

1.1 In 1980, following a recommendation by the Public Accounts Committee (PAC), the Government agreed to present an annual statement (Statement) to Parliament giving details of the Budget of the European Union (EU Budget).

1.2 This Statement is the thirty third in the series and describes the EU Budget for 2013, as adopted by the European Parliament. It then sets out details of the United Kingdom's gross and net contributions to the EU Budget over the financial years 2007-08 to 2012-13 (together with estimates for 2013-14 to 2017-18) and over the calendar years 2007-12 (together with an estimate for 2013). Details of recent developments in EU financial management and the fight against fraud affecting EU funds are also provided.

2 The 2013 EU Budget

2.1 The EU Annual Budget is negotiated beneath the ceilings set in the Multi-Annual Financial Framework (MFF). The MFF for 2007-13, which was agreed in 2005, set the ceiling for the 2013 EU Annual Budget. Box 2.A provides information about the next MFF for 2014-20, on which the Prime Minister, with the leaders of other EU Member States, agreed an unprecedented real-terms cut to the payment limit at the European Council in February 2013 (the first time in history these EU Budget frameworks have been cut).

The 2013 EU Budget

2.2 The EU financial year runs from 1 January to 31 December, whereas the UK's runs from 6 April to 5 April. The 2013 EU Budget was agreed under the Cypriot Presidency of the EU in the second half of 2012. Negotiations began in April 2012, when the Commission proposed a draft EU Budget for 2013. This proposed an increase in EU spending (payments appropriations) to €137.9 billion (£112.5 billion).[1] The Council agreed amendments to this draft Budget in July 2012, proposing to reduce the Commission's proposal to €132.7 billion (£108.3 billion). In November 2012, the European Parliament provided its position, which would have set the level of EU spending in 2013 to €137.9 billion (£112.5 billion).

2.3 Following a process of conciliation between the Council and European Parliament the 2013 EU Budget was formally agreed. The adopted 2013 EU Budget provides for commitment appropriations of €150.9 billion (£123.1 billion), equivalent to 1.13 per cent of EU Gross National Income (GNI); and payment appropriations of €132.8 billion (£108.4 billion), equivalent to 0.99 per cent of EU GNI. The payment appropriations for each of the main EU Budget headings are shown in Chart 2.A.

2.4 Throughout negotiations the UK consistently called for budgetary restraint at EU level and voted against the final adopted Budget.

2.5 Table 2.A shows the various stages of the negotiations during 2012.

2.6 Figures for previous years' EU Budgets are provided for comparison in Annex C (Tables C.1 and C.2).

[1] 2013: £1 = €1.225340. This is the 31 December 2012 exchange rate, which is the rate at which all UK VAT-based and GNI-based contributions, and the UK rebate, are being converted to sterling throughout 2013.

Box 2.A: The next Multi-Annual Financial Framework (2014-20)

At the February 2013 European Council, the Prime Minister and other EU leaders agreed that ceilings should be reduced – the first time in history these EU Budget frameworks have been cut.

Leaders agreed an unprecedented real-terms cut in the payment limit to €908 billion (£741 billion) for the seven year period. That is €80 billion (£65 billion) lower than the original proposal made by the European Commission and €35 billion (£29 billion) lower than the deal agreed by the last Government in 2005 for the current period 2007-13. Under the deal agreed in February, the EU's seven-year Budget will cost less than 1 per cent of the EU's gross national income for the first time in its history.

Overall, the deal agreed represents a better outcome in terms of growth, jobs and competitiveness. The section of the Budget that includes spending on research, innovation and university funding has increased by over a third. Much of this money is allocated on the basis of excellence, so Britain's universities are well placed to benefit. Reform of EU spending remains a long-term project, but this deal delivers important progress.

The UK was also clear throughout negotiations that there could be no change to the UK rebate and no EU-wide taxes could be introduced as new own resource. These two vital objectives have been achieved.

The European Parliament now needs to give formal consent to the legal document setting out the new financial framework.

Table 2.A: 2013 EU Budget

							€ million
Payment Appropriations	**Financial Perspective Ceiling[1]**	**Commission draft 2013 EU Budget**	**Council position**	**European Parliament position**	**Adopted 2013 EU Budget**	**Current Agreed 2013 EU Budget[2]**	**2012 EU Budget[3]**
1. Sustainable growth:		62,528	59,030	62,596	59,085	65,745	60,287
1a. Competitiveness for Growth and Employment		*13,553*	*11,655*	*13,616*	*11,886*	-	*12,064*
1b. Cohesion for Growth and Employment		*48,975*	*47,375*	*48,980*	*47,199*	-	*48,223*
2. Preservation and Management of Natural Resources		57,965	57,474	57,930	57,484	57,882	58,045
3. Citizenship, Freedom, Security and Justice		1,575	1,514	1,592	1,515	1,665	2,183
3a. Freedom, Security and Justice		*928*	*877*	*931*	*877*	-	*846*
3b. Citizenship		*646*	*637*	*660*	*638*	-	*1,337*
4. The EU as a Global Player		7,312	6,277	7,273	6,323	6,728	6,966
5. Administration		8,546	8,399	8,507	8,430	8,430	8,278
Total Payment Appropriations	144,285	137,924	132,695	137,898	132,837	140,526	135,758
As a percentage of EU GNI	1.10%	1.03%	0.99%	1.03%	0.99%	1.05%	1.05%

[1] Total Member State GNI bases agreed at the Advisory Committee on Own Resources Forecast meeting on May 16 2013 and HM Treasury calculation
[2] Includes agreed amending Budgets 1-5
[3] Includes agreed amending Budgets 1-6
Note: Because of rounding the column totals do not necessarily equal the sum of individual items

Sources: Council of the European Union 'Council approves agreement on 2013 EU Budget' and 'Council's position for 2013 EU Budget adopted'
Official Journal of the European Union, 'Definitive adoption of amending Budget No 6 of the European Union for the financial year 2012'
Official Journal of the European Union, 'Definitive adoption of the European Union's general Budget for the financial year 2013'
EU Commission: 'Draft Amending Budget No 5 to the General Budget 2013 Statement of Revenue by Section'
HM Treasury calculations

Box 2.B: Budget amendments

Table 2.A shows payment appropriations for the adopted 2013 EU Budget. This is the original 2013 EU Budget which was formally agreed by the Council and European Parliament in December 2012. Budget amendments are any mid-year changes to expenditure or revenue proposed by the Commission. Table 2.A also shows the current agreed 2013 EU Budget. This includes all of the Budget amendments which have been approved by the Council and European Parliament up to September 2013, which are amending Budgets 1-5. Draft Amending Budgets 6-9 are under negotiation and are expected to add €3.9 billion payment appropriations to the 2013 EU Budget.

In line with established practice in previous editions of the EU Finances Statement, it is the Adopted 2013 EU Budget that will be referred to in the text, used in tables and displayed in charts throughout this document, unless stated otherwise.

2.7 Details of the levels of payments in the adopted 2013 EU Budget are as follows:

- **Heading 1: Sustainable Growth.** Expenditure in this area includes research and development, education and training, employment and social policy. Payments for Heading 1 overall were set at €59.09 billion (£48.22 billion) for 2013, a reduction of 2 per cent compared with Budget 2012.[1]

  Payments towards research, learning, and innovation (Heading 1a) were set at €11.90 billion (£9.70 billion), a 1.5 per cent reduction compared to 2012. Payments toward fostering regional growth and employment (Heading 1b) were set at €47.20 billion (£38.52 billion). This was a 2.1 per cent reduction compared to 2012.

- **Heading 2: Preservation and Management of Natural Resources.** Expenditure in this area includes spending on the Common Agricultural Policy (CAP), fisheries, rural development, and measures aiming to contribute to food quality and a cleaner environment.

  Payments in this area were set at €57.48 billion (£46.91 billion) in the 2013 Budget, a 1 per cent reduction compared to 2012.

- **Heading 3: Citizenship, Freedom, Security and Justice.** Expenditure in this area includes immigration, migration, security, and fundamental rights and justice. Payments for Heading 3 overall in 2013, excluding those associated with the European Union Solidarity Fund, were set at €1.52 billion (£1.24 billion), a 1.4 per cent reduction compared to 2012.

  Payments for Heading 3a – focused on the field of Freedom, Security and Justice – were set at €877 million (£715 million), a 3.7 per cent reduction on 2012.

  Payments in 2013 for Heading 3b on Citizenship, which includes spending on culture, youth, and public health, but excludes the European Union Solidarity Fund, were set at €638 million (£521 million).

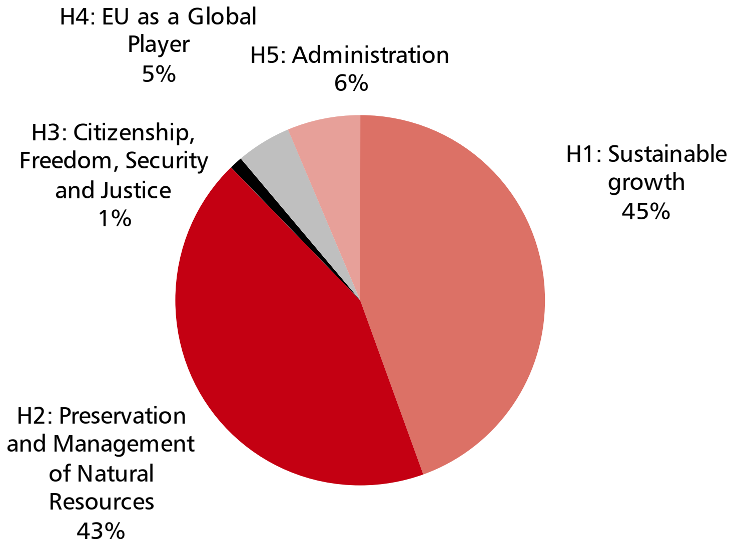
- **Heading 4: The EU as a Global Player.** Expenditure in this area includes EU foreign policy and international development expenditure.

  Payments in 2013 for Heading 4 were set at €6.32 billion (£5.16 billion). This is a reduction of 9.2 per cent compared to 2012.

[1] Budget 2012 includes Adopted Amending Budgets 1-6

- **Heading 5: Administration.** Expenditure for Heading 5 is on the functioning of the EU institutions and includes remuneration and allowances for staff and members, pension costs, and rent and other building costs. Payments for 2013 under Heading 5 have been set at €8.43 billion (£6.88 billion), a 1.8 per cent increase compared to 2012.

Chart 2.A: 2013 EU Budget – payment appropriations by Budget heading



Source: Official Journal of the European Union, 'Definitive adoption of the European Union's general Budget for the financial year 2013' and HM Treasury calculations

EU revenue

2.8 The Own Resources Decision provides for four sources of EU revenue: customs duties, including those on agricultural products; sugar levies; contributions based on VAT; and GNI-based contributions. The first two categories are known as 'Traditional Own Resources' (TOR). The VAT and GNI-based contributions are often referred to as the third and fourth resources. A more detailed explanation can be found in the glossary.

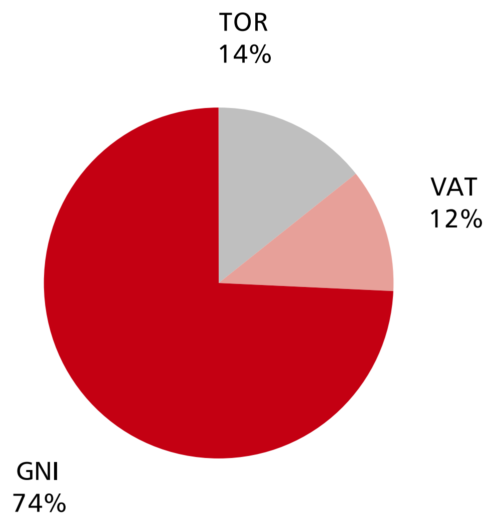
2.9 Chart 2.B shows a breakdown of the estimates of how the 2013 EU Budget will be financed. Tables C.3 and C.4 show the gross contributions by Member State, after taking account of the UK rebate, over the period 2007-13. The key points to note in terms of the UK's contribution are:

- total TOR in 2013 is estimated to be around €18.8 billion (£15.3 billion), with the UK's share estimated at 14.2 per cent. In 2012, final estimates of revenue from this source were €16.8 billion (£13.6 billion), of which the UK's share was 15.3 per cent;
- total VAT-based contributions in the 2013 EU Budget are €15.0 billion (£12.3 billion), with the UK's share estimated as 19.3 per cent. In 2012, total VAT-based contributions were €14.5 billion (£11.8 billion), of which the UK's share was 18.8 per cent;
- total GNI-based contributions in the 2013 EU Budget are €97.5 billion (£79.6 billion), of which the UK's share is 15.0 per cent. In 2012, GNI-based contributions were €97.3 billion (£78.9 billion) with a UK share of 14.6 per cent; and

- an estimated value of the UK's rebate in 2013 is €4.1 billion (£3.3 billion) compared with €3.7 billion (£3.0 billion) in the 2012 EU Budget. A detailed explanation of how the UK rebate is calculated, and how it operates, can be found in the glossary.

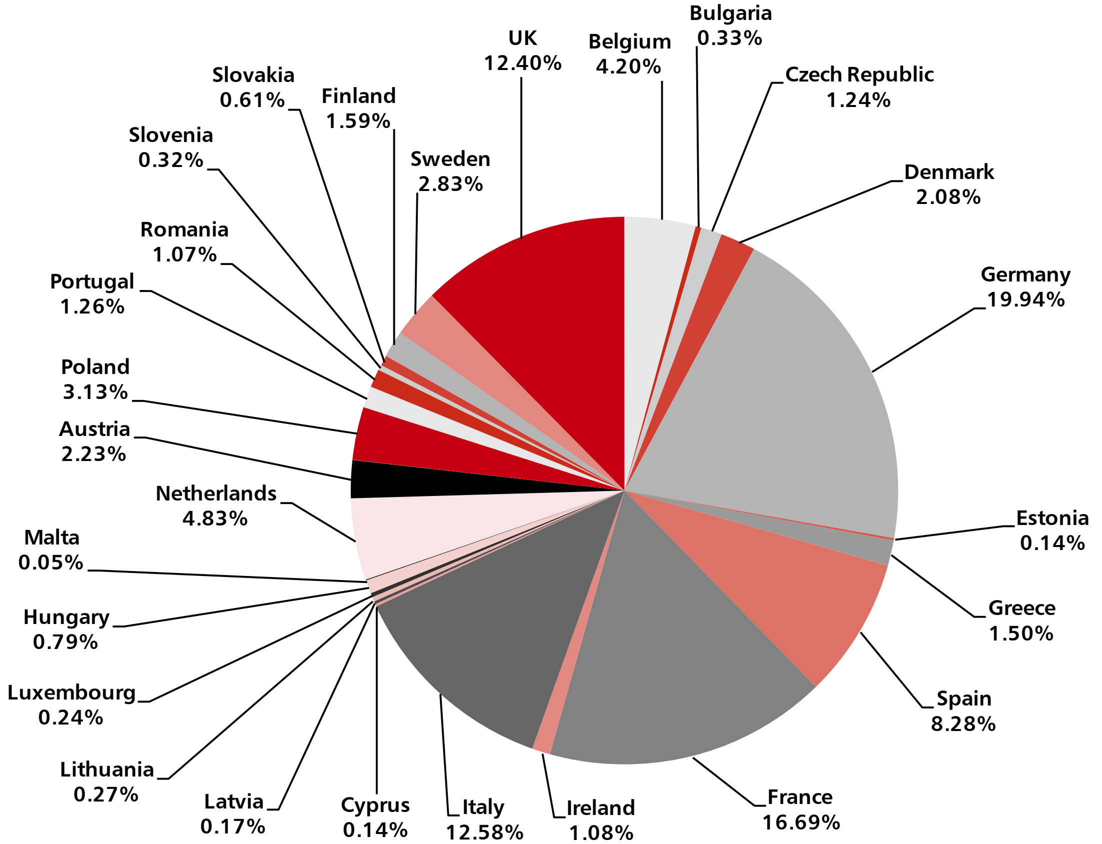
2.10 Chart 2.C shows each Member States' share of financing the 2013 EU Budget, after taking account of the UK rebate.

Chart 2.B: 2013 EU Budget revenue



Source: Official Journal of the European Union, 'Definitive adoption of the European Union's general Budget for the financial year 2013' and HM Treasury calculations

Chart 2.C: EU Budget revenue 2013 – percentage share after rebates by Member State



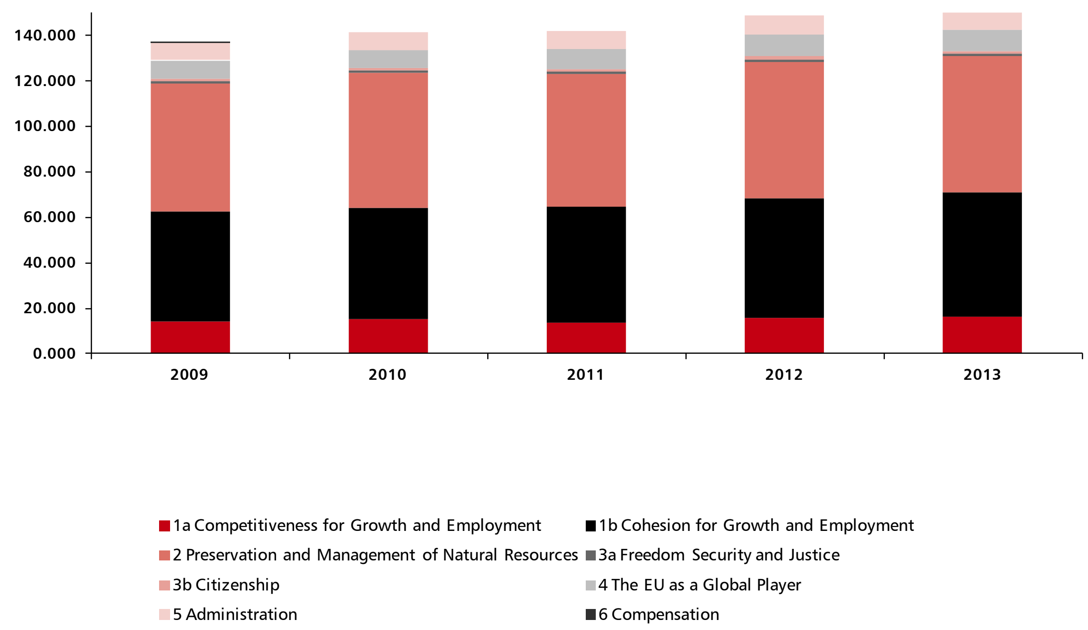
Source: Official Journal of the European Union, 'Definitive adoption of the European Union's general Budget for the financial year 2013' and HM Treasury calculations

3 Developments in EU Finances

Expenditure

3.1 Chart 3.A shows the development in EU spending commitments between 2009 and 2013. Over this period, the total level of commitments has increased by €13.95 billion (£11.38 billion), from €136.95 billion (£121.92 billion[1]) in 2009 to €150.90 billion (£123.15 billion) in 2013. Within this, Sustainable Growth (Heading 1) has increased by €8.43 billion (£6.88 billion). This includes a €2.35 billion (£1.92 billion) increase for the Competitiveness for Growth and Employment sub-heading and a €6.08 billion (£4.96 billion) increase for the Cohesion for Growth and Employment sub-heading. Preservation and Management of Natural Resources (Heading 2) has increased by €3.45 billion (£2.82 billion); and Administration (Heading 5) has increased by €0.83 billion (£0.68 billion).

Chart 3.A: Developments in EU spending (commitments) 2009-13 (€ billion)



Source: European Union Commission Budget website: http://eur-lex.europa.eu/Budget/www/index-en.htm and HM Treasury calculations

3.2 Further details on spending in recent years are given in Tables C.1 and C.2. These illustrate commitments and payments for the years 2009-13.

[1] Using the annual average rate for 2009 of £1 = €1.123291

The UK's net contribution

3.3 Chart 3.B shows the volatility of the UK's net contribution to the EU Budget from year to year. This volatility results from variations in payments made due to the nature of the Own Resources system; variations in public sector receipts; and consequent fluctuations in the UK's rebate. For further details, refer to technical annex and the glossary.

3.4 Table 3.A shows the UK's gross contributions, rebate, public sector receipts, and net contributions to the EU Budget for calendar years 2007-13. The figures for 2013 are estimates; those for earlier years are outturn figures. Table C.5 gives a more detailed breakdown.

Table 3.A: Gross payments, rebate and receipts (calendar years)

							£ million
	2007 Outturn	**2008 Outturn**	**2009 Outturn**	**2010 Outturn**	**2011 Outturn**	**2012 Outturn**	**2013 Estimated Outturn[1]**
Gross Payments[2]	12,456	12,653	14,129	15,197	15,357	15,746	17,184
Less: UK rebate	-3,523	-4,862	-5,392	-3,047	-3,143	-3,110	-3,324
Less: Public sector receipts	-4,332	-4,497	-4,401	-4,768	-4,132	-4,168	-5,237
Net contributions to EU Budget[3]	**4,601**	**3,294**	**4,336**	**7,382**	**8,082**	**8,468**	**8,624**

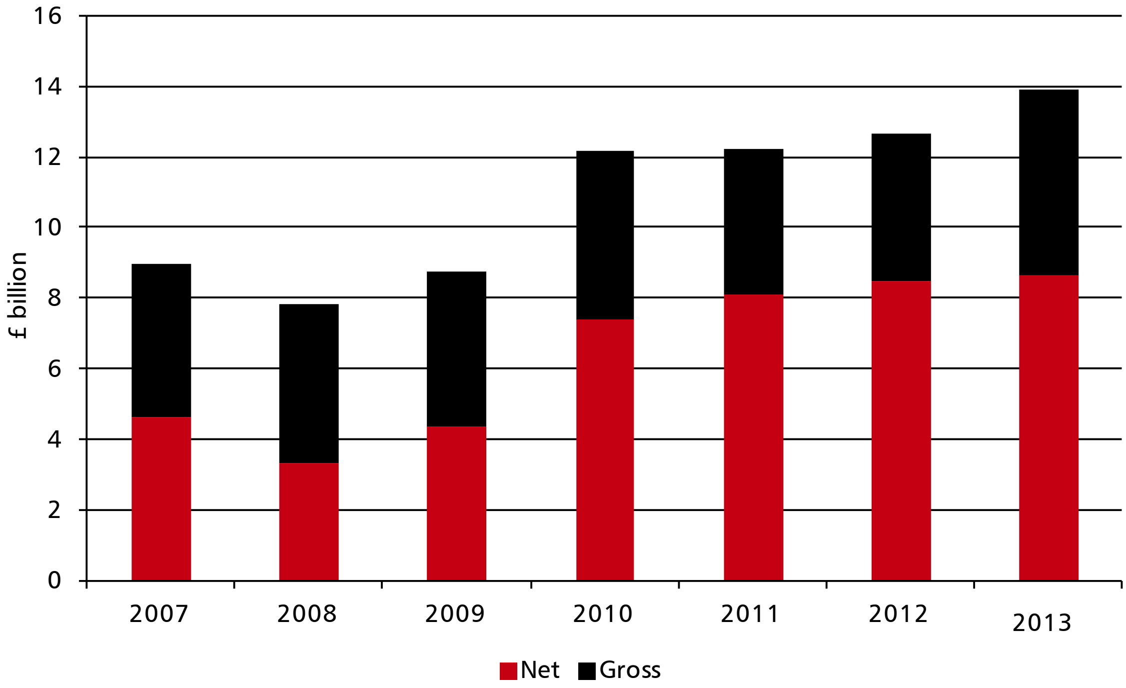
[1] The figures for 2013 are based on the Office for Budget Responsibility Forecast and HM Treasury calculation. Those for earlier years are outturn.
[2] Gross payment figures include TOR payments at 75 per cent. The remaining 25 per cent is retained by the UK to cover the costs of administering collection on behalf of the EU.
[3] Due to rounding, totals may not exactly correspond to the sum of individual items

Source: Office for Budget Responsibility and HM Treasury

3.5 UK public sector receipts in 2013, mainly from the European Agricultural Fund of Guarantee (FEAGA), European Agricultural Fund for Rural Development (EAFRD) and the Social and Regional Development Funds, are expected to be around £5.2 billion. The majority of these receipts will either be paid to, or used in support of, the private sector but are channelled through Government departments.

3.6 The EU makes some payments directly to the private sector, for example to carry out research activities. These payments do not appear in the public sector's accounts. In 2013, these receipts are expected to be around £925 million. These payments are not included in Tables 3.A or 3.B-E, which provide data on public sector receipts only.

Chart 3.B: Profile of UK gross and net contributions to the EU Annual Budget for the years 2007-13 (£ billion)



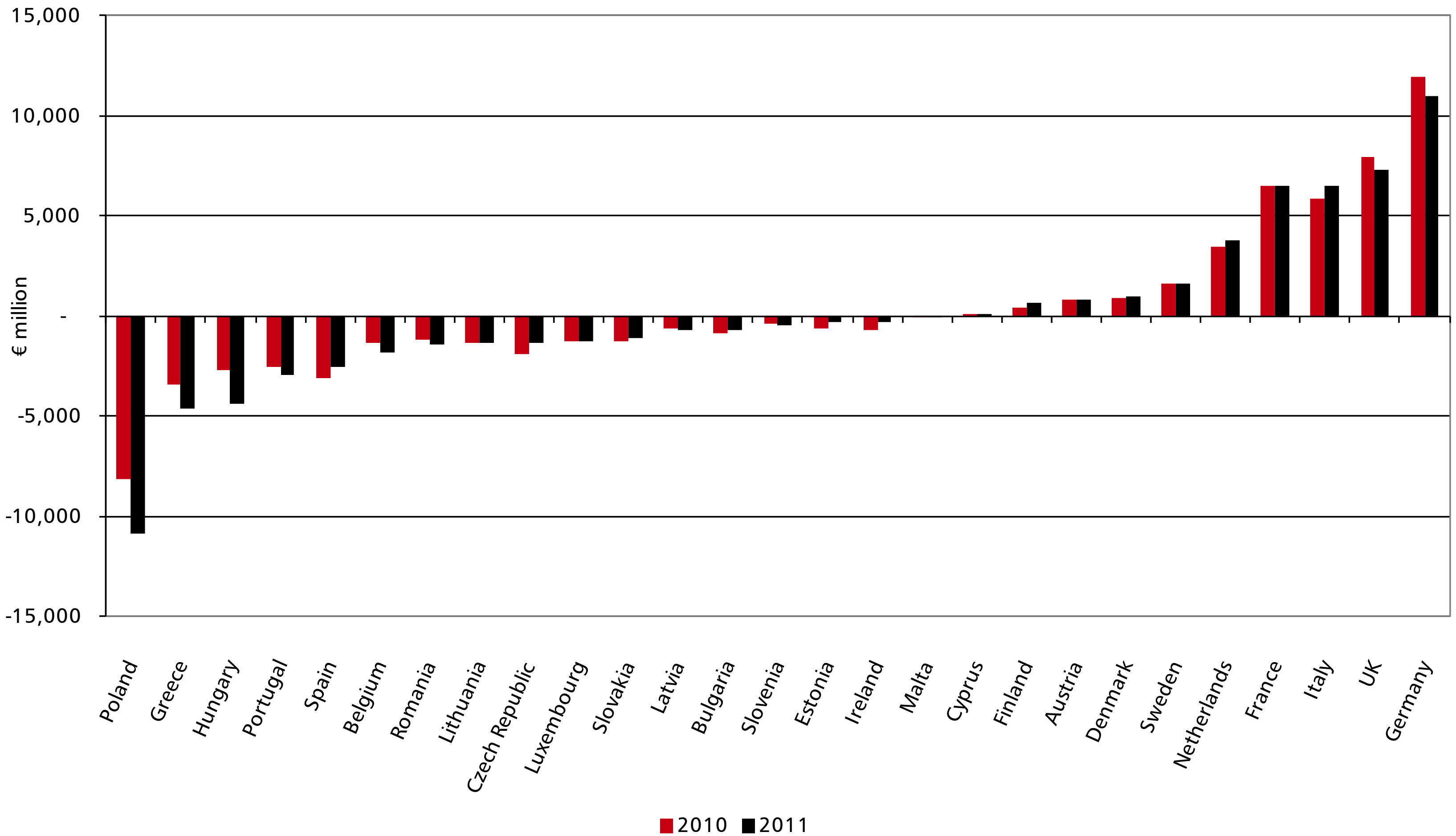
Note: 2013 is an HM Treasury estimate based on the Office for Budget Responsibility Forecast

Source: HM Treasury and the Office for Budget Responsibility

3.7 The UK's 2013 net contribution to the EU Budget is forecast at £8.6 billion; the outturn in 2012 was £8.5 billion.

3.8 Chart 3.C shows how the UK's net position compares with those of the other Member States in 2010 and 2011. In 2011, the UK was one of ten net contributors to the EU Budget.

Chart 3.C: Net receipts/contributions of Member States in 2010 and 2011 (€ million)



Source: Based on data published in EU Budget 2010 Financial Report and EU Budget 2011 Financial Report, published by the European Commission in September 2011 and September 2012 respectively

Financial year transactions

3.9 The EU financial year runs from 1 January to 31 December, whereas the UK's runs from 6 April to 5 April. Table 3.B gives a breakdown of the UK's transactions (estimated outturn) with the EU on a financial year basis between 2007-08 and 2012-13.

Table 3.B: Gross payments, rebate and receipts (financial years – outturn)

						£ million
	2007-08 Outturn	**2008-09 Outturn**	**2009-10 Outturn**	**2010-11 Outturn**	**2011-12 Outturn**	**2012-13 Estimated Outturn**
Gross payments[1]	13,746	13,155	13,733	15,593	15,700	16,871
Less: UK rebate	-3,960	-5,595	-4,218	-2,678	-3,516	-3,172
Less: Public sector receipts	-5,601	-4,558	-4,788	-3,998	-4,771	-4,020
Net contributions to EU Budget[2]	**4,185**	**3,002**	**4,727**	**8,917**	**7,413**	**9,679**
Payments to EU Budget attributed to the aid programme[3]	-715	-751	-928	-966	-871	-889
Other attributed costs	0	0	-69	-43	-163	-82
Net payments to EU institutions (excluding Overseas Aid)[2]	**3,470**	**2,252**	**3,730**	**7,908**	**6,380**	**8,708**

[1] Gross payment figures include Traditional Own Resources payments at 75 per cent. The remaining 25 per cent is retained by the UK to cover the costs of administering collection on behalf of the EU.

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

[3] For domestic/public expenditure planning purposes, part of the UK's contribution to the EU Budget is attributed to the overseas aid programme. The aid programme also includes payments to the EDF, not included here.

Source: Office for Budget Responsibility Forecast and HM Treasury calculations

3.10 The Office for Budget Responsibility forecasts contributions made by the UK to the EU Annual Budget in future years. Table 3.C provides a breakdown of the Office for Budget Responsibility's latest estimated UK transactions with the EU over the period 2013-14 to 2017-18. Tables 3.D (outturn figures) and 3.E (plans) provide a more detailed breakdown of UK receipts by major programmes from the EU Budget over the periods 2007-08 to 2012-13 (outturn figures) and 2013-14 to 2017-18 (estimates).

Table 3.C: Gross payments, rebate and receipts (financial years – plans)

					£ million
	2013-14 Plans	**2014-15 Plans**	**2015-16 Plans**	**2016-17 Plans**	**2017-18 Plans**
Gross Payments[1]	16,653	16,687	16,968	16,979	17,248
Less: UK rebate	-3,676	-4,242	-3,837	-3,756	-3,710
Less: Public sector receipts	-4,664	-5,002	-5,063	-5,084	-5,576
Net contributions to EU Budget[2]	**8,313**	**7,444**	**8,067**	**8,139**	**7,962**
Payments to EU Budget attributed to the aid programme[3]	-944	-962	-962	-962	-962
Other attributed costs	-79	0	0	0	0
Net payments to EU institutions (excluding Overseas Aid)[2]	**7,290**	**6,482**	**7,105**	**7,177**	**7,001**

[1] Gross payment figures include Traditional Own Resources payments at 75 per cent. The remaining 25 per cent is retained by the UK to cover the costs of administering collection on behalf of the EU.
[2] Due to rounding, totals may not exactly correspond to the sum of individual items.
[3] For domestic/public expenditure planning purposes, part of the UK's contribution to the EU Budget is attributed to the overseas aid programme. The aid programme also includes payments to the EDF, not included here.

Source: Office for Budget Responsibility Forecast and HM Treasury calculations

Table 3.D: Public Sector receipts from the EU Budget (financial years – outturn)

						£ million
	2007-08 Outturn	**2008-09 Outturn**	**2009-10 Outturn**	**2010-11 Outturn**	**2011-12 Outturn**	**2012-13 Estimated Outturn**
FEAGA	3,455	3,047	2,967	2,541	2,973	2,956
EAFRD	265	299	310	362	462	298
Social Fund	831	519	571	687	552	366
Regional Development Fund	1,029	656	919	383	709	327
Other Receipts	21	37	20	26	74	73
Total	**5,601**	**4,558**	**4,788**	**3,998**	**4,771**	**4,020**

Source: Office for Budget Responsibility Forecast and HM Treasury calculations

Table 3.E: Public Sector receipts from the EU Budget (financial years – plans)

					£ million
	2013-14 Plans	**2014-15 Plans**	**2015-16 Plans**	**2016-17 Plans**	**2017-18 Plans**
FEAGA	3,157	3,736	3,749	3,784	3,927
EAFRD	126	95	98	97	124
Social Fund	794	705	734	724	918
Regional Development Fund	501	395	409	405	514
Other Receipts	85	71	73	72	92
Total	**4,664**	**5,002**	**5,063**	**5,084**	**5,576**

Source: Office for Budget Responsibility Forecast and HM Treasury calculations

3.11 Payments to the EU Budget are scheduled on a monthly basis, but the Commission can request for earlier contributions from Member States of VAT-based and GNI-based contributions and the UK rebate, to take account of frontloaded CAP payments, which take place in the first months of the calendar year. The Office for Budget Responsibility's 2012 Autumn Forecast (December 2012) estimated a Commission request for earlier payment of an additional two twelfths of VAT-based and GNI-based contributions from Member States for the first quarter of the 2013 EU Budget year. This proved to be correct. This meant that a total of five twelfths were paid in the first quarter of the 2013 calendar year. As a result, payment of seven twelfths of each of these elements will be made over the remainder of 2013 and these payments will all fall into the 2013-14 financial year.

3.12 The forecast by the Office for Budget Responsibility for the UK's contribution to EU institutions is based on a comprehensive and detailed analysis of the many different factors affecting the different types of contribution the UK makes to the EU.

3.13 This document again includes estimates of UK contributions to the EU Budget over the period 2013-14 to 2016-17 and also includes, for the first time, an estimate for 2017-18. In the medium term, the size of the UK net contribution is forecast to decrease from £9.7 billion in 2012-13 to £8.3 billion in 2013-14 and £7.4 billion in 2014-15. Although an agreement on the 2014 to 2020 EU MFF was agreed in February 2013, forecasts beyond 2013 remain subject to usual forecasting uncertainties. The assumption underlying the forecasts for these years can be found on the Office for Budget Responsibility's website.

3.14 In accordance with a commitment to the PAC, the technical annex of this document explains the main differences in respect of calendar year 2011 between the Government's figures and those which can be derived from the European Commission's EU Budget 2011 Financial Report.

4 Financial management and anti-fraud issues

4.1 The annual Commission's Fight Against Fraud report and European Anti-Fraud Office's report detail the actions taken by the Commission and the Member States to counter fraud impacting on EU funds. They also highlight areas that are most at risk of fraud and in need of targeted action at both EU and national level. The European Court of Auditors (ECA) also produces an annual report which holds the Commission and Member States to account for their management of the EU Budget. This chapter provides an overview of the latest versions of these documents, as of September 2013.

European Court of Auditors' annual report on the 2011 EU Budget

4.2 The European Court of Auditors (ECA) is the independent audit institution of the EU and is responsible for auditing EU Institutions. It is required to provide the European Parliament and Council with an annual report on the implementation of the EU Budget.[1] These reports include a Statement of Assurance (usually referred to as the 'DAS', from the French 'Déclaration d'Assurance') on whether the EU accounts are complete and accurate, and whether income and expenditure have been managed in accordance with all contractual and legal obligations. The report forms an essential element in the European Parliament's oversight of the Commission's management of the EU Budget.

4.3 The report launches the annual 'Discharge' process, the procedure whereby the European Parliament, acting on a recommendation from the Council, decides whether to release the Commission from its responsibility for the management of the Budget for the year in question.

4.4 The 2011 ECA report, published on 6 November 2011, provides an assessment of each of the EU Budget areas and, as usual, the conclusions of the report are based mainly on: testing the regularity of transactions; the effectiveness of the principal supervisory and control systems governing the revenue or expenditure involved; and on a review of the reliability of the Commission's management representations.[1] The quality of reporting by the Commission also features in the report.

4.5 The presentation and composition of the policy groups (and related chapters) in the ECA report have again been altered in the 2011 from the previous version. Direct payments in agriculture are now treated separately as opposed to all agriculture, environment, fisheries and health spending being classified under one heading. Also, regional policy, energy and transport are not grouped under the same heading as employment and social affairs spending. In addition, the ECA changed its methodology by including the failure to meet cross-compliance rules in the calculation of the most likely error rate.[2]

[1] The European Court of Auditors' annual report on the 2011 EU Budget can be found at: http://eca.europa.eu/portal/pls/portal/docs/1/18320745.PDF
Note: The European Court of Auditors' annual report on the 2012 EU Budget was published on 5 November 2013.

[2] Cross compliance is a mechanism that links direct payments to compliance by farmers with basic standards concerning the environment, food safety, animal and plant health and animal welfare, as well as the requirement of maintaining land in good agricultural; and environmental condition.

ECA's Statement of Assurance

4.6 In the ECA's opinion, the 2011 accounts of the EU give a fair presentation of the financial position and the results of its operations and cash flows for the year.

4.7 The ECA found that EU revenue underlying the 2011 accounts is legal and regular in all material aspects and that commitments in all policy groups were also free from material error.

4.8 However, the ECA found that payments (EU spending) continue to be affected by material error with an estimated error rate of 3.9 per cent for the 2011 EU Budget as a whole, a small increase from 3.7 per cent in 2010.

4.9 Overall, the control systems examined across the EU Budget were only partially effective in ensuring the regularity of payments and are not realising their potential to prevent or detect and correct errors. Many instances of control failure were identified.

4.10 All individually assessed areas of EU spending were affected by material error with the exception of external relations, aid and enlargement and administrative expenditure; highlighting the need for further improvements.

4.11 For the eighteenth consecutive year, the ECA did not grant a positive DAS on the reliability of the accounts and the legality and regularity of transactions underlying these accounts.

4.12 In their report, the ECA provides specific assessments for revenue and expenditure policy groups as follows:

- Revenue: this covers the EU's revenue, through which it finances its Budget. For 2011 the ECA concludes that Member States' payments of TOR, VAT and GNI based resources and other revenue were all free from material error and that examined supervisory and control systems were, in general, effective in ensuring the regularity of transactions. The most likely error rate is estimated by the ECA at 0.8 per cent. However, the report revealed weaknesses in national customs supervision and concludes that the supervisory and control systems of the Member States audited are only partially effective in ensuring that the customs duties recorded are complete and correct. The ECA recommends that the Commission should:
    - encourage Member States to strengthen customs supervision on order to maximise the amounts of TOR collected; and
    - continue its efforts in ensuring accounting systems allow the Member States' accounts to be demonstrably complete and correct.
- Agriculture: Market and Direct Support: this covers the European Agricultural Fund of Guarantee (FEAGA), one of the two main instruments of the Common Agricultural Policy of the EU. The ECA concludes that payments for this policy area were affected by material error as a whole; with the most likely error rate estimated at 2.9 per cent. More errors appeared to be related to 'accuracy', most frequently over-declaration of land area by beneficiaries. The ECA also found cross compliance infringements in a number of payments. The ECA recommends that the Commission and Member States should take action to ensure:
    - paying agencies take immediate remedial action where their administrative and control systems and/or databases are deficient;
    - the design and quality of the work performed by the certification bodies provides a reliable assessment of the legality and regularity of operations in the paying agencies; and

- the eligibility of permanent pasture is properly assessed in all Member States, especially in cases where areas are partly covered with bushes, shrubs, dense trees or rocks and on-the-spot inspections identify the eligible area in a reliable manner.

- Rural Development, environment, fisheries and health: this covers spending on rural development, environment, fisheries and health, of which European Agricultural Fund for Rural Development (EAFRD) represents close to 90 per cent of the payments in this policy group, with its management shared with Member States. EAFRD co-finances rural development expenditure through Member States' rural development programmes. It covers area-related measures (such as agri-environment payments and compensatory payments to farmers in areas with natural handicaps) and non-area-related measures (such as modernisation of agricultural holdings and the setting up of basic services for the economy and rural population). The ECA concludes that payments were affected by material error, with the most likely error rate estimated at 7.7 per cent. The majority of these errors concerned the eligibility of expenditure for non-area related measures. The ECA recommends that the Commission take action to ensure that:

  - rules and conditions for rural development expenditure are further simplified and enforced;

  - Member States carry out administrative and on-the-spot checks in a more rigorous manner so as to mitigate the risk of declaring ineligible expenditure to the EU; and

  - checks are spread throughout the year so that all relevant seasonal requirements are properly checked.

- Regional Policy: energy and transport: this covers regional policy (around 95 per cent), which is mostly financed through the European Regional Development Fund (ERDF) and the Cohesion Fund (CF), with its management shared with Member States. Energy and transport represent the remaining 5 per cent of spending and is managed directly by the Commission. The ECA found that payments for the policy group were materially affected by error, with the most likely error rate estimated at 6.0 per cent. The ECA recommends that the Commission take action to:

  - make sanction systems more effective by increasing the impact of financial corrections and by reducing the possibility of replacing the ineligible expenditure with other expenditure;

  - strictly monitor compliance with the eligibility requirements for EU funding, in particular the correct application of EU and national public procurement rules; and

  - address weaknesses in 'first level checks' at the level of managing authorities and intermediate bodies, where appropriate through training measures and specific guidance material.

  In order to make the procedure for closing multi-annual programmes more efficient the ECA recommends that the Commission remind Member States to ensure that the final declarations submitted for the 2007-13 programmes are reliable; examine the specific weaknesses identified by the ECA in the winding-up declarations for closures of 2000-06 programmes; and consider whether these problems have also occurred for other operational programmes, and apply financial corrections where necessary.[3]

- **Employment and Social Affairs:** this covers employment and social affairs policy, which are part of EU cohesion policy with management shared with Member States. The European Social Fund (ESF) is the main tool for the implementation of employment and social policy, accounting for almost all of the policy area spending in 2011. The ESF funds investments in human capital through training and other employment measures. The ECA concludes that payments were affected by material error, with the most likely error rate estimated at 2.2 per cent. The ECA recommends that the Commission take action to:
  - ensure compliance with the eligibility requirements for ESF funding and encourage the use by Member States of the simplified cost options permitted in the regulations in order to reduce the scope for error;
  - ensure appropriate action is taken to address the weaknesses in first level checks;
  - encourage national authorities to apply the corrective mechanisms prior to the certification of expenditure to the Commission; and
  - ensure whenever significant deficiencies in the functioning of the management and control systems are identified, the payments are interrupted or suspended until corrective action has been taken by the Member State.
- **External relations, aid and enlargement:** this covers payments in the fields of external relations, development and humanitarian aid and measures for EU candidate and accession countries. Management of the spending is implemented directly by the Commission, either from their headquarters in Brussels or by EU delegations in recipient countries, or jointly with international organisations. The ECA concludes that payments were not affected by material error, with the most likely error rate estimated at 1.1 per cent. All the errors were found in interim or final payments. The ECA also found a high frequency of non-quantifiable errors, and concludes that the preventive and detective controls applied by the Commission prior to payment are not fully effective. The ECA recommends that the Commission take action to:
  - improve the supervision of grant contracts, making better use of on-the-spot visits to prevent and detect ineligible expenditure declared, and/or increase the coverage of the audits contracted by the Commission; and
  - ensure that the internal audit function of the Service for Foreign Policy Instruments becomes operational.[4]
- **Research and other internal policies:** this mostly covers framework programmes for research and technological development (FPs), accounting for over 50 per cent of the total operational expenditure. Other internal policies include the Lifelong Learning Programme (around 10 per cent). The expenditure is managed directly by the Commission. The ECA concludes that payments were affected by material error, with the most likely error rate estimated at 3.0 per cent. The main source of error is the over-declaration of costs by beneficiaries for projects funded by the research FPs. The ECA recommends that the Commission:

[3] A winding-up declaration is an opinion provided by the winding-up body on the validity of the final request for payment and the final certificate of expenditure presented for a programme which is co-financed by Structural Funds.
[4] The Service for Foreign Policy Instruments works alongside the European External Action Service and is responsible for operational expenditure.

  - enhance its initiatives to make beneficiaries and independent auditors aware of the errors detected during the ECA's and the Commission's ex-post audits; and
  - ensure that the external audit firms conducting audits on its behalf align their procedures with the Commission's guidelines and standard practice, and, in particular, enhance the quality of their audit documentation.

- **Administrative and other expenditure:** this covers the expenditure of EU institutions and other bodies. Human resources (salaries, allowances and pensions) account for 60 per cent of the spending in this policy group with expenditure on buildings, equipment, energy, communications and information technology accounting for the remainder. The results of the ECA audits of the EU agencies and other decentralised bodies are reported in specific annual reports, which are published separately. The ECA found that examined supervisory and control systems of the policy group were effective. It concludes that payments were not affected by material error, with the most likely error rate estimated at 0.1 per cent. The ECA recommends that the institutions and bodies concerned should take steps to:
  - ensure that the provisions of the relevant regulations are applied when concluding, extending or modifying employment contracts with non-permanent staff; and
  - ensure that authorising officers improve the design, coordination and performance of procurement procedures through appropriate checks and better guidance.

- **Getting results from the EU Budget:** this chapter focused on performance and the Commission's self-assessments of performance as stated in the Annual Activity Reports of Directorate-Generals. The ECA recommends that the Commission:
  - ensure when designing new spending programmes, it focuses activities on results and impacts it wants to achieve. If results and impacts cannot be readily measured, the Commission should put in place indicators and milestones, based on Specific, Measurable, Achievable, Realistic and Timely (SMART) objectives, that would demonstrate that its activities support its desired goals;
  - work with Member States with a view to improving the quality and timeliness of data submitted; and
  - define policy objectives so as to demonstrate and report how it secures EU added value during the next programming period 2014-20.

Council recommendation to the European Parliament on Discharge

4.13 On 6 February 2013, the Council welcomed the ECA's Statement of Assurance (DAS) on the implementation of the Budget for the financial year 2011 and the analysis of the audit findings and conclusions provided by the Court. It stressed the importance of independent audits carried out at EU level and firmly supported the work of and the audit findings presented by the Court.

4.14 It regretted, however, that payments from the EU Budget continued to be materially affected by error, that supervisory and control systems for payments remained only partially effective, and that the objective of obtaining a positive DAS on the underlying transactions was again not achieved.

4.15 In its response, the Council:

- encouraged Member States to pursue their efforts to ensure the delivery of high quality results by the national audit authorities, and the Commission to continue providing guidance with particular attention to sampling, scope of verifications and quality control;
- invited the Commission and Member States to continue their efforts in securing strict compliance with EU and national eligibility requirements, and with public procurement rules;
- encouraged Member States to simplify as much as possible the eligibility rules set out at national level and to ensure their correct application;
- called on the Commission to apply robust procedures to ensure that 2000-06 and 2007-13 programmes are closed in an efficient manner and respecting sound financial management;
- encouraged the Commission to continue to reinforce its internal control systems;
- called on the Commission to pursue further audit work for the 2000-06 programmes in order to provide a more realistic evaluation of the expenditure at risks; and
- stressed the need to define a limited number of SMART annual and multi-annual objectives for each programme and action, focussing on the results achieved, notably on the impact and the added value resulting from activities at EU level, and to strictly monitor these objectives.

4.16 On 6 February 2013, the Netherlands, Sweden and the UK voted against the Council's recommendation on discharge for the second time, in order to send a strong signal of disapproval at the slow pace of improvement in EU financial management and the importance of redoubling efforts to achieve a positive DAS. The Netherlands, Sweden, and the UK also submitted a joint declaration calling for progress in three key areas, namely: greater Member State responsibility, enhanced transparency and strict application of sanctions such as suspensions and interruptions.

European Parliament decision on Discharge

4.17 The European Parliament takes a final decision on whether to discharge the EU Budget. It does so having considered the ECA's report, the Commission's response, and the recommendation of the Council. On 17 April 2013, the European Parliament adopted by a large majority the discharge of the 2011 EU accounts for all EU institutions and bodies other than the EU Environment Agency.

4.18 The European Parliament's recommendations include:

- improving national accountability by introducing national declarations;
- calling for an end to the practice of applying for funding for projects only after they are physically completed;
- simplifying national rules applied on top of EU ones wherever possible, to discourage "gold plating"; and
- urging the Commission to issue a country-by-country list, publicly showing the financial corrections and recoveries collected and what has been done to improve management and control systems.

UK Government's response to the ECA

4.19 The ECA report includes several specific issues arising in Member States, including the UK. A copy of the UK's response to the ECA was sent to both Houses of Parliament on 22 January 2013. Remedial actions have been implemented where necessary. To highlight two specific examples:

Agriculture

Audit finding: Late payment for the Single Payment Scheme

UK Response: Although the payment was made outside of the regulatory payment window, the UK authorities asserted that this was in accordance with Article 9 (1) of Commission Regulation 883/2006. This provides for payments to be made after the scheme deadline and offset against a 5 per cent reserve. On this basis, the UK Authorities did not accept that this constitutes an error.

Revenue

Audit finding: Borders not reliably defined

UK Response: The UK Authorities agree that two parcels were not reliably identifiable from the Rural Land Register prints provided at the audit and the parcels have now been re-mapped.

Fight against Fraud Report 2011

4.20 The protection of the EU's financial interests and the fight against fraud are areas of shared responsibility between the Commission and Member States. Each year, the Commission, in cooperation with Member States, issues a report on details of irregularities and latest statistics on fraud, and recent measures taken to reduce irregularities and fraud.[5] This report is required under Article 325 (5) of the Treaty on the Functioning of the European Union (TFEU), and is sent to the Parliament and Council.

4.21 As in previous years, the report includes both the latest information on irregularities detected by control systems and suspected fraud (with a distinction made between fraud and other irregularities), and on measures taken to deal with them, and a one-off analysis of a special topic. The 2011 report is in four sections:

- **results of irregularities** relating to areas where Member States implement the Budget (agricultural policy, cohesion policy and pre-accession funds) and in the collection of the EU's Traditional Own Resources (TOR); and expenditure directly managed by the Commission;
- **recovery** of irregular amounts in 2011;
- **special focus** on the measures taken and irregularities reported in the high-risk area of cohesion policy; and
- **overview of anti-fraud policies** implemented in 2011 and of the new initiatives taken to ensure effective protection of the financial interests of the EU.

4.22 The report is accompanied by four Commission Staff Working Papers: (i) Implementation of Article 325 TFEU in 2011 by the Member States; (ii) Statistical Evaluation of Irregularities reported for 2011; (iii) Follow-up recommendations to the Commission's Fight Against Fraud report for 2010; and (iv) Methodology regarding the statistical evaluation of reported irregularities for 2011.

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[5] The Commission's fight against fraud report can be found at: http://ec.europa.eu/anti_fraud/documents/reports-commission/2011/report_en.pdf

4.23 Member States are required to report irregularities and suspicions of fraud affecting the EU's financial interests in the areas where they implement the Budget.

Irregularities reported as fraudulent

4.24 In 2011, a total of 1,230 irregularities were reported as fraudulent (suspected and established fraud), a reduction of approximately 35 per cent compared with 2010. The estimated financial impact of such irregularities reported as fraudulent also decreased, by about 37 per cent in comparison with 2010 to €404 million (£351 million). The Commission gives the main reasons for this decrease, following increases reported in 2008 and 2009 as: the end of the temporary acceleration in reporting following the introduction of the Irregularity Management System in 2008; and a general improvement in management and control systems. The Commission also concluded that Cohesion policy remains the sector with the highest number of irregularities reported as fraudulent (54 per cent of the total) and the most in terms of financial impact (69 per cent of the total).

Table 4.A: Number of irregularities reported as fraudulent

Area	2010[1] No. of cases	Amounts (€ millions)	2011 No. of cases	Amounts (€ millions)
Agricultural	414	69	139	77
Fisheries	0	0	2	0.03
Cohesion policy	464	364	276	204
Pre-Accession Funds	101	41	56	12
Direct Expenditure	21	3.6	34	1.5
Total expenditure	**1,000**	**478**	**507**	**295**
TOR	**883**	**165**	**723**	**109**

[1] Figures shown for 2010 have since been updated as OLAF constantly update its databases.

Source: The Commission's 2011 Fight Against Fraud Report

Other irregularities (not reported as fraudulent)

4.25 In 2011, a total of 10,974 other irregularities were reported, down from 13,210 in 2010. The estimated financial impact of these decreased from €1,579 million (£1,370 million) in 2010 to €1,494 million (£1,296 million) in 2011.

Table 4.B: Number of irregularities not reported as fraudulent

Area	2010[1] No. of cases	Amounts (€ millions)	2011 No. of cases	Amounts (€ millions)
Agricultural (FEAGA and EAFRD)	1,427	62	2,256	101
Fisheries	1	0.01	46	1.6
Cohesion policy	6,598	1,186	3,604	1,015
Pre-Accession Funds	323	42	207	48
Direct Expenditure	1,000	39.5	888	49.9
Total expenditure	**9,349**	**1,326**	**7,001**	**1,216**
TOR	**3,861**	**253**	**3,973**	**278**

[1] Figures shown for 2010 have since been updated as OLAF constantly update its databases.

Source: The Commission's 2011 Fight Against Fraud Report

4.26 The report notes that the recovery of EU funds affected by irregularity and fraud has improved, with the Commission reclaiming around €2 billion (£1.7 billion) in financial corrections and recoveries in 2011. The Commission urged Member States that still have low recovery rates to make the necessary improvements, and to seize assets when the beneficiaries fail to re-pay money affected by irregularities and fraud.

4.27 The Commission's analysis of Member States' responses on the year's special topic: the measures taken and irregularities reported in the high-risk area of cohesion policy – showed improvement in the financial control and risk management system in Member States. All the Member States reported legislative or administrative measures (including on-the-spot-checks and controls and recovery procedures) that they had taken in the period 2007-11, which in their view have contributed substantially to better prevention of fraud in the area of cohesion policy and/or to improvements in the risk management system. In terms of effectiveness and efficiency, almost all the Member States reported that their proactive approach resulted in more irregularities being detected before payment and, consequently, a lower number of irregularities eventually reported.

4.28 The analysis also shows that efforts are still needed in every sector covered by the EU Budget in order to maintain progress and to address the potential adverse effects that the current financial crisis could have in the form of an increase in fraudulent acts. The Commission recommends that all Member States should continue to put in place adequate anti-fraud measures aimed at both prevention and detection of illegal activities against the EU Budget. Based on the statistics for recovery, the Commission recommends improvements to the recovery process for wrongfully paid out moneys, which are still too long.

Twelfth Report of the European Anti-Fraud Office (1 January to 31 December 2011)

4.29 The European Anti-Fraud Office (OLAF) is an administrative investigative service of the EU, with the remit of combating fraud, corruption and other illegal activities affecting the EU, including serious misconduct within the EU institutions that has financial consequences. It aims to ensure that EU taxpayers' money is spent appropriately and that the EU is not being deprived of its due revenue.

4.30 OLAF's operational activities are independent from the European Commission and its internal (within the EU) and external (outside the EU) investigations are conducted in full independence. It investigates cases of fraud and provides assistance to the Commission and EU bodies and national authorities in their fight against fraud. It works closely with national authorities' investigation services, police, legal and administrative authorities to counter fraud. It also supports the Commission in developing anti-fraud measures.

4.31 Every year, the OLAF Director publishes a report on the activities of the Office over the previous year. The twelfth report, issued on 9 July 2012, gave a summary of OLAF's achievements in 2011, supported by statistics and case studies.[6]

4.32 An internal review launched in March 2011, resulted in changes to OLAF's organisation and working methods. The new organisational structure and investigative procedures (introduced on 1 February 2012) provides a clearer allocation of responsibilities (investigations, investigative support, policy and resources), and focuses resources on prioritised activities to increase the efficiency and quality of OLAF's investigations. Other changes include: the replacement of: 'assessments' with a selection phase; formal follow-up activities with simplified monitoring activities; and the reclassifications of cases into only two groups – investigations and

[6] OLAF's 12th activity report can be found at: http://ec.europa.eu/anti_fraud/documents/reports-olaf/2011/olaf_report_2011_en.pdf

coordination cases. External and internal investigative cases are now classified as ‘investigations’; while coordination, criminal assistance and mutual assistance cases are now classified as ‘coordination cases’. As a result, statistical data in the report are, for the first time, presented under new headings to reflect these new investigative procedures.

4.33 The following statistics were reported for 2011:

- 1,046 items of information were received in 2011 from public and private sources (three quarters from the private sector);
- 178 new cases were opened in 2011, 80 per cent of which were investigations. 208 investigative and coordination cases were closed during the year;
- 463 investigation and coordination cases were handled in 2011. Of these: 122 related to EU staff, 89 to the agricultural sector, 67 to external aid, and 64 to structural funds;
- the clearance rate (the ratio of cases opened and closed), improved and fell below one. The average duration of cases increased slightly to 29.1 months;
- in more than half of all cases closed in 2011, recommendations (judicial action and financial recoveries) were made by OLAF for action to be taken by EU institutions, bodies, offices, agencies or competent authorities of the Member States concerned;
- as a result of legal action in Member States, following OLAF’s recommendations, national courts sentenced fraudsters to a cumulative 511 years imprisonment in 2011 and imposed financial penalties of nearly €155 million (£134 million); and
- €691 million (£600 million) was recovered in total as a result of OLAF’s cases, with the highest recorded in the Structural Funds sector (€525 million or £456 million), followed by Customs (€114 million or £99 million) and Agriculture (€34 million or £30 million).

4.34 In the policy field, OLAF has been actively engaged in: negotiations to amend the legislative framework governing its work; the implementation of the Commission’s anti-fraud strategy; new legislative proposals on the protection of EU financial interests by substantive criminal law, on the procedural framework for the protection of EU financial interests and on the establishment of a specialised European public prosecutor’s office, and on the reinforcement of Eurojust and OLAF; and negotiations for new Hercule and Pericles programmes under the MFF for the period 2014-20.

4.35 In 2011, OLAF operated on an administrative Budget of €58.2 million (£50.5 million), €23.5 million (£20.4 million) of which was used to provide financial support in order to fight fraud and corruption affecting the financial interests of the EU, to improve cooperation with partners, to measure the costs of corruption in public procurement and to strengthen the protection of euro banknotes and coins. OLAF personnel in 2011 were 437.

A Glossary

Commitment and payment appropriations

A.1 The EU Budget distinguishes between appropriations for commitments and appropriations for payments. Commitment appropriations are the total cost of legal obligations that can be entered into during the current year, for activities that, in turn, will lead to payments in current and future years. Payment appropriations are the amounts of money that are available to be spent during the year, arising from commitments in the Budgets for the current or preceding years. Unused payment appropriations may, in exceptional circumstances, be carried forward into the following year.

Discharge procedure

A.2 The ECA's annual report is subject to consideration by the budgetary authority (Council and European Parliament) under the "discharge procedure" set out in Article 319 (3) of the Treaty on the functioning of the EU. In particular, it considers how the Budget for the year in question was implemented. The European Parliament, acting on a recommendation from the Council, considers whether to grant the Commission a discharge in respect of the Budget in question, thus bringing the budgetary process for that year to a formal close. The Commission is obliged under Article 319 (3) of the Treaty on the functioning of the EU to take "all appropriate steps" to act on comments made by the European Parliament and by the Council during the discharge process. If so asked, it must also report back on its actions, with such reports going to the ECA.

Flexibility Instrument

A.3 The Flexibility Instrument was established under paragraph 24 of the 1999 IIA, which allows for expenditure in any given Budget year of up to €200 million above the MFF ceilings established for one or more Budget headings. Any portion of the Flexibility Instrument unused at the end of one year may be carried over for up to two subsequent years, but the Flexibility Instrument should not, as a rule, be used to cover the same needs for two years running. The Flexibility Instrument is intended for extraordinary expenditure and may only be used after all possibilities for reallocating existing appropriations have been exhausted. Both arms of the budgetary authority must agree to a mobilisation of the Flexibility Instrument following a proposal from the Commission.

Fraud and irregularity

A.4 **Fraud** covers intentional acts or omissions, in respect of both expenditure and revenue, which involve the use or presentation of false, incorrect or incomplete statements or documents, or specific non-disclosure of information, or misapplication of funds or benefits.

A.5 **Irregularity** (as defined by Council Regulation 2988/95) covers both simple omissions due to errors or negligence, which undermine the EU and are intentional and deliberate acts. For example, a genuine payment made after the closing date for claims represents an irregularity; but import of goods under false papers is fraud. Member States are required by regulations to report irregularities in the three main Budget sectors (Own Resources, agriculture and structural funds) on a quarterly basis.

Inter Institutional Agreement (IIA)

A.6 The IIA is a politically and legally binding agreement that clarifies the EU's budgetary procedure. Under the Treaty, the Council and the European Parliament have joint responsibility for deciding the EU Budget on the basis of proposals from the Commission. The IIA sets out the way in which the three institutions will exercise their responsibilities in accordance with the Treaty, and their respect for the revenue ceilings that are laid down in the Own Resources Decision. In particular, it provides for the annual EU Budget to be set in the context of a MFF.

Own Resources

A.7 The Own Resources Decision lays down four sources of EU revenue, or 'Own Resources':

- customs duties, including those on agricultural products. These are paid on a range of commodities imported from non-Member countries. Following the agreement on agriculture during the Uruguay GATT round, most duties are now fixed. However, for some key commodities, they continue to vary in line with changes in world prices;
- sugar levies: These are charged on the production of sugar in order to recover part of the cost of subsidising the export of surplus EU sugar onto the world market;
- contributions based on VAT: Essentially, the VAT resource is the amount yielded by applying a notional rate of 1 per cent to a VAT base, assuming an identical range of goods and services in each Member State. The VAT base is calculated on the basis of a notional harmonised rate and reflects finally taxed expenditure across the EU. The method for calculating the VAT-based resource is set out in the Own Resources Decision as follows:

    1 the starting point is the total amount of net VAT collected in each Member State;

    2 a weighted average of the rates at which VAT is charged in the Member State is then applied to the net total to produce the Member State's intermediate national base;

    3 the intermediate base is then adjusted for derogations operated under the Principal VAT Directive, to produce the harmonised base;

    4 a notional rate of 1 per cent is then applied to this base. The base is, where necessary, then capped at 0.5 per cent of the Member State's GNI; and

    5 a call-up rate (currently a maximum of 0.3 per cent) is applied to produce a Member States' VAT-based contribution.

- GNI-based contributions: the amount due is calculated by taking the same proportion of each Member State's GNI. As the EU is not allowed to borrow, revenue must equal expenditure. The GNI-based resource is the Budget-balancing item; it covers the difference between total expenditure in the Budget and the revenue from the other three resources, subject to the overall Own Resources ceiling.

A.7.1 The first two Own Resources are known collectively as "Traditional Own Resources" (TOR). The VAT and GNI-based contributions are often referred to as the 'third' and 'fourth' resources respectively.

Sterling figures

A.8 The figures referred to in pounds sterling for 2007-13 in this document are based on actual Sterling cash receipts, or payments where these took place and are known. Elsewhere, the appropriate annual average Sterling/Euro exchange rate has been used to convert Euro figures into Sterling.[1] The 2013 Euro figures have been converted into Sterling using the Sterling/Euro exchange rate on 31 December 2012, namely £1=€1.225340 (regulations state that VAT-based and GNI-based payments will be made using the exchange rate on the last working day of the preceding year). However, there may be some exceptions, for example where figures have previously been published at a different exchange rate, but these are noted where necessary.

Structural funds

A.9 At present, there are four structural funds through which the EU grants financial assistance to resolve structural economic and social problems:

- the European Regional Development Fund (ERDF), which promotes economic and social cohesion within the Union through the reduction of imbalances between regions or social groups;
- the European Social Fund (ESF), which promotes the EU's employment objectives by providing financial assistance for vocational training, retraining and job creation schemes;
- the European Agricultural Guidance and Guarantee Fund (EAGGF), which contributes to the structural reform of the agriculture sector and to the development of rural areas;
- the Financial Instrument for Fisheries Guidance (FIFG), the specific fund for the structural reform of the fisheries sector; and
- in addition, the EU supports Member States with GDP that is less than 90 per cent of the European average through the Cohesion Fund, which finances projects linked to the environment and trans-European transport systems.

UK rebate

A.10 The UK's VAT-based contributions are abated (reduced) according to a formula set out in the Own Resources Decision. Broadly, this is equal to 66 per cent of the difference between what the UK contributes to the EU Budget and the receipts, which the UK gets back, subject to the following points:

- the rebate applies only in respect of spending within the EU;
- the UK's contribution is calculated as if the Budget were entirely financed by VAT; and
- the rebate is deducted from the UK's VAT-based contribution a year in arrears, e.g. the rebate in 2013 relates to UK payments and receipts in 2012.

A.11 The formula for the calculation of the rebate is set out in the Own Resources Decision and in a Working Methods Paper first published in 1988 and revised in 1994, 2000 and again in 2007.

A.12 The Commission is directly and solely responsible for determining the UK's rebate. It calculates the rebate on the basis of a forecast of contributions to the EU Budget and of receipts from it. This is subsequently corrected in the light of outturn figures.

[1] The annual average rate for 2007 is £1 = €1.461500
The annual average rate for 2008 is £1 = €1.257509
The annual average rate for 2009 is £1 = €1.123291
The annual average rate for 2010 is £1 = €1.166206
The annual average rate for 2011 is £1 = €1.152493
The annual average rate for 2012 is £1 =€1.233211

A.13 Corrections may be made for up to three years after the year in respect of which the rebate relates, with a final calculation then being made in the fourth year, e.g. a final calculation of the rebate in respect of 2012 will take place in 2016.

A.14 The effect of the rebate is to reduce the amount of the UK's VAT-based and GNI-based payments to the EU Budget. It does not involve any transfer of money from the Commission or other Member States to the Exchequer.

B Technical annex

Determining the value of the Own Resources elements

B.1 The budgetary process relating to revenue has to respect the rules governing the size and structure of Own Resources. It involves a chain of inter-related calculations. These can be summarised as follows:

- at the beginning of the budgetary process, which occurs in the year prior to the Budget in question, the amounts due from each Member State are assessed in that Member State's national currency, i.e. Sterling for the UK;
- the initial process involves estimating the amounts due to be received in respect of TOR, the amount relating to VAT if it were applied at 1 per cent across the EU, and the amount of 1 per cent of each Member State's GNI. These estimates rely on the Member States' estimates of their economic activity during the Budget year;
- the Member States' national currency estimates are, where necessary, then converted into Euro using an exchange rate at the time the estimates are being drawn up – nowadays this is usually an early May exchange rate;
- the amount of VAT and GNI each Member State has to pay to the EU Budget is then determined by the limits described above for these Own Resources, so that; when added to the amounts for the TOR, the total does not exceed the value of the Own Resources required to fund the proposed Budget for the coming year, subject to ensuring that the value of these Own Resources does not also exceed the Own Resources ceiling for the year in question (e.g. 1.23 per cent in 2013);
- the sum produced (in Euro) is entered into the Draft Budget (DB), in the year preceding the budgetary year;
- the sum entered in the DB is adjusted as necessary during the remainder of the Budget process, essentially to reflect changes on the expenditure side of the Budget, but still on the basis of the Budget exchange rate and still respecting the Own Resources ceiling;
- the Sterling/Euro exchange rate on the last working day prior to the start of the EU Budget year is established as the rate by which UK VAT-based and GNI-based contributions will be converted for the whole Budget year. The Sterling amount which the UK has to pay in respect of these two resources will be different from its original estimates if the rate on the last working day is different from the Budget exchange rate;
- during the course of the Budget year, the UK pays its VAT and GNI contributions to meet its obligations as denominated in Euro in the Adopted Budget, or subsequent amending Budgets (see Table 2.B for definition). As Member States pay only what they collect, their TOR payments are not determined by the Euro amounts in the Budget;
- Member States pay their contributions for a given Budget year in monthly instalments (VAT and GNI-based contributions on the first working day of each

month, TOR on the first working day following the nineteenth of each month). The VAT and GNI-based contributions are subsequently adjusted in the light of a number of factors, such as outturn figures for VAT. If outturn expenditure is below the amount raised from Member States, excess contributions are refunded in an amending Budget;

- since there are generally differences between the Sterling/Euro exchange rates (a) used to set the Budget and (b) to make VAT-based and GNI-based contributions, the UK would generally have paid more or less in Sterling compared with the amount established for them for the budgetary year in question. These exchange variations are accounted for in-year under arrangements in place since 1998. Member States re-estimate their 1 per cent VAT and GNI bases during the course of the budgetary year and the conversion of their national currency estimates is carried out using the exchange rate on the last working day prior to the start of the Budget year. The revised figures are then included in an Amending Budget to the budgetary year to which they relate. In practice, converting the revised figures using the exchange rate on the last working day means that in-year contributions are no longer affected by exchange rate differences. Furthermore, re-estimating the value of the 1 per cent base using much later information means that any differences between these estimates and the actual outturn for the year are very much reduced. The Member States thus contribute in-year virtually what they should on the basis of their national currency obligations. In the year following the budgetary year, any adjustments to correct for any under or overpayment should be relatively small; and
- numerous small further adjustments are however, required to be made over several years following the budgetary year, for example, to reflect later adjustments in the amount of GNI statistics.

Explanation of the difference between the Government's cash flow outturn for the UK's net contribution for 2011 and the figures in the European Commission's EU Budget 2011 Financial Report

B.2 As set out in Chapter 3, paragraph 3.16, there is a difference between the UK Government's figures for the cash flow outturn for the UK's net contribution for 2011 and the figures in the European Commission's EU Budget 2011 Financial Report. An explanation for this difference is set out in Table B.1, Table B.2 and paragraphs B.3 to B.4.

B.3 When converted at the average exchange rate for 2011 of £1= €1.152493, the figures on cash flow outturn for the UK's net contribution for 2011 in the European Commission's EU Budget 2011 Financial Report break down as set out in Table B.1:

Table B.1: Cash flow outturn for the UK's net contribution for 2011 in the European Commission's EU Budget 2011 Financial Report

	€ million	**£ million**
UK gross contribution before rebate	17,421.1	15,116.0
UK rebate	-3,595.9	-3,120.1
UK receipts	-6,570.0	-5,700.7
UK net contribution	**7,255.2**	**6,295.2**

Source: European Commission's EU Budget 2011 Financial Report, HM Treasury calculations

B.4 The Government's figure for the UK's net contribution in 2011 is £8,082 million.

B.5 A number of factors contribute to the difference between the two net contribution figures. The probable main causes for the difference are as follows:

- the UK figure includes only transactions between the EU Budget and the UK public sector, whereas the European Commission's figures include receipts paid direct to the UK private sector. It is estimated that this accounted for around £1,500 million of the difference in 2011;
- Amending Budget No. 6/2011 being adopted very near to the end of negotiations on the 2011 EU Budget meant that associated changes were not implemented until 2012. The result of which leads to the Government's figures for 2011 being some £132 million higher than if the Amending Budget changes had been implemented in 2011; and
- the UK's outturn figure is based on cash flow within the calendar, whereas European Commission figures attempt to match transactions to a particular EU Budget. Some receipts from an EU Budget for a given year take place in the early weeks of the subsequent year. These are shown in UK figures in the year in which the transaction occurred and by the European Commission to the Budget for the previous year. Up to £95 million of Structural Funds payments to the UK in 2012 may have been in respect of the 2011 EU Budget.

These factors are set out in Table B.2.

Table B.2: Reconciliation of the UK Government's cash flow outturn figures for the UK's net contribution for 2011 with the figures in the European Commission's EU Budget 2011 Financial Report

	£ million
UK Government cash-flow outturn for 2011	8,082
Private sector receipts	-1,500
Late implementation, in January 2012, of Amending Budget No. 6/2011	-132
EU receipts paid to the UK in 2012 which may have been from the 2011 EU Budget	-95
UK cash-flow figure adjusted to reflect main differences compared to European Commission's figure	**6,355**
European Commission figure for 2011 outturn	**6,295**
Net difference due to other factors (such as exchange rate)	**60**

Source: European Commission's EU Budget 2011 Financial Report, Office for Budget Responsibility Forecast, HM Treasury calculations

C Tables

C.1 This annex includes tables that supplement data presented in the main text.

Table C.1: Expenditure on the EU Budget Commitments and Payments by Heading in years 2008-13 (€ million)

Appropriations	Commitments					Payments				
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013
1 Sustainable Growth	62,202	64,250	64,501	68,141	70,630	45,205	48,800	53,994	60,287	59,085
1a Competitiveness for Growth and Employment	13,775	14,863	13,521	15,389	16,121	10,318	11,339	11,604	12,064	11,886
1b Cohesion for Growth and Management	48,427	49,387	50,984	52,753	54,509	34,887	37,461	42,390	48,223	47,199
2 Preservation and Management of Natural Resources	56,697	59,499	58,659	59,850	60,149	50,276	57,020	55,794	58,045	57,484
3 Citizenship, Freedom, Security and Justice	2,152	1,754	2,098	2,753	2,106	2021	1,440	1,713	2,183	1,515
3a Freedom Security and Justice	886	1,006	1,180	1,368	1,399	728	715	835	846	877
3b Citizenship	1,266	748	918	1,386	707	1,293	725	878	1,337	*638*
4 The EU as a Global Partner	8,104	8,141	8,759	9,404	9,583	8,100	7,788	7,053	6,966	6,323
5 Administration	7,597	7,908	8,173	8,280	8,431	7,600	7,907	8,172	8,278	8,430
6 Compensations	209	0	0	0	0	209	0	0	0	0
Total	136,951	141,552	142,194	148,428	150,898	113,410	122,955	126,727	135,758	132,837

Notes:
1. 2009-11 includes all Amending Budgets. 2012 includes Amending Budgets 1-6. 2013 as adopted.
2. Because of rounding the columns totals do not necessarily equal the sum of the individual items.

Source: Figures for 2009 to 2011 are taken from the European Commission's EU Budget reports: the latest edition EU Budget 2011 Financial Report was published in September 2012.
Figures for 2012 are taken from Amending Budget 6/2012 in the Official Journal of the European Union 'Definitive adoption of amending Budget No 6 of the European Union for the financial year 2012'
Figures for 2013 are taken from 2013 Adopted Budget in the Official Journal of the European Union, 'Definitive adoption of the European Union's general Budget for the financial year 2013'
European Commission Budget website: http://eur-lex.europa.eu/Budget/www/index-en.htm
HM Treasury calculations

Table C.2: Expenditure on the EU Budget Commitments and Payments by Heading in years 2008-13 (£ million)

Appropriations	Commitments					Payments				
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013
1 Sustainable Growth	55,375	55,093	55,967	55,255	57,641	40,243	41,845	46,850	48,886	48,219
1a Competitiveness for Growth and Employment	12,263	12,745	11,732	12,479	13,156	9,186	9,723	10,069	9,783	9,700
1b Cohesion for Growth and Management	43,112	42,348	44,238	42,777	44,485	31,058	32,122	36,781	39,104	38,519
2 Preservation and Management of Natural Resources	50,474	51,019	50,897	48,532	49,088	44,758	48,894	48,412	47,068	46,913
3 Citizenship, Freedom, Security and Justice	1,916	1,504	1,820	2,232	1,719	1,799	1,235	1,486	1,770	1,236
3a Freedom Security and Justice	789	863	1,024	1,109	1,142	648	613	725	686	716
3b Citizenship	1,127	641	797	1,123	577	1,151	622	762	1,084	521
4 The EU as a Global Partner	7,214	6,981	7,600	7,626	7,821	7,211	6,678	6,120	5,649	5,160
5 Administration	6,764	6,781	7,092	6,714	6,881	6,766	6,780	7,091	6,713	6,880
6 Compensations	186	0	0	0	0	186	0	0	0	0
Total	**121,919**	**121,378**	**123,379**	**120,359**	**123,148**	**100,962**	**105,432**	**109,959**	**110,085**	**108,408**

Notes:
1. 2009-11 includes all Amending Budgets. 2012 includes Amending Budgets 1-6. 2013 as adopted.
2. Because of rounding the columns totals do not necessarily equal the sum of the individual items.

Source: Sterling figures are derived from the corresponding euro amounts in Table C.1 converted at the appropriate exchange rate (see glossary).

Table C.3: EU Budget Own Resources (€ million)

	Agricultural and Sugar Levies							Custom Duties							VAT Contributions						
	2007	2008	2009	2010	2011	2012	2013	2007	2008	2009	2010	2011	2012	2013	2007	2008	2009	2010	2011	2012	2013
Belgium	12	61	6	6	7	7	7	1,673	1,759	1,417	1,483	1,574	1,617	1,872	701	769	601	608	694	681	710
Bulgaria	14	23	0	0	0	0	0	47	63	53	42	49	51	62	67	81	76	61	70	74	78
Czech Republic	11	12	3	3	4	3	3	167	195	164	186	217	217	246	284	345	265	248	282	267	280
Denmark	32	50	3	3	3	3	3	298	294	280	304	324	329	374	496	537	448	352	403	419	437
Germany	51	323	27	26	27	26	26	2,976	3,014	2,919	3,038	3,429	3,407	3,780	3,929	3,738	2,017	1,837	1,890	1,973	2,051
Estonia	18	10	-	-	-	-	-	25	24	24	17	22	22	25	38	38	31	25	29	32	33
Greece	8	7	1	1	1	1	1	222	224	190	214	140	133	141	844	615	512	462	372	356	364
Spain	37	28	6	5	5	5	5	1,253	1,161	996	1,130	1,165	1,115	1,222	2,475	2,587	2,290	1,257	2,452	1,936	1,967
France	94	365	36	31	38	31	31	1,238	1,204	1,227	1,376	1,528	1,669	2,035	4,441	4,714	3,967	3,278	3,883	3,863	4,049
Ireland	0	1	-	-	-	-	-	218	200	177	186	200	198	217	396	401	308	250	246	247	253
Italy	145	119	5	4	4	5	5	1,543	1,530	1,500	1,664	1,738	1,669	1,799	3,193	4,310	2,461	2,175	2,530	2,736	2,814
Cyprus	12	9	3	-	-	-	-	35	36	31	26	25	20	25	36	40	37	33	36	33	36
Latvia	3	2	1	-	-	-	-	28	27	18	17	23	23	27	50	55	37	23	25	31	33
Lithuania	3	9	2	1	1	1	1	42	51	38	38	44	46	55	67	79	61	42	42	50	54
Luxembourg	1	1	0	-	-	-	-	19	14	11	13	14	14	16	74	73	63	50	62	61	65
Hungary	5	9	1	2	2	2	2	106	104	92	91	99	100	120	213	242	170	154	164	144	172
Malta	2	2	0	-	-	-	-	10	11	9	10	10	10	11	13	14	12	11	12	12	12
Netherlands	252	271	7	7	7	7	7	1,621	1,762	1,714	1,742	1,928	1,880	2,086	1,029	993	357	257	341	319	330
Austria	0	16	3	3	3	3	3	201	185	154	164	186	197	240	452	425	298	310	330	339	349
Poland	39	123	3	13	14	13	13	300	328	297	305	339	353	426	725	864	636	685	710	679	775
Portugal	21	15	0	-	0	0	0	116	119	117	134	135	121	137	383	392	341	354	381	316	318
Romania	29	42	1	1	1	1	1	130	158	123	100	109	109	125	249	277	246	175	206	220	225
Slovenia	0	1	-	-	-	-	-	82	89	69	67	74	73	82	79	92	81	67	73	69	72
Slovakia	4	6	2	1	1	1	1	87	105	82	106	116	121	142	126	123	123	86	97	108	114
Finland	8	5	1	1	1	1	1	141	161	114	126	152	149	170	393	417	372	307	354	375	389
Sweden	22	31	2	5	3	3	3	417	424	368	429	464	484	553	528	500	198	186	206	211	223
United Kingdom	450	444	10	9	10	10	10	2,207	2,056	2,222	2,504	2,542	2,573	2,647	-1,779	-3,312	-3,533	-934	-1,083	-1,005	-1,176
Total	1,373	1,985	124	123	132	123	123	15,200	15,297	14,404	15,514	16,646	16,701	18,632	19,500	19,408	12,475	12,356	14,805	14,546	15,030

EU Budget Own Resources (€ million) – continued

	Fourth Resource Contributions							TOTALS						
	2007	2008	2009	2010	2011	2012	2013	2007	2008	2009	2010	2011	2012	2013
Belgium	1,986	2,041	2,433	2,686	2,652	2,926	2,921	4,372	4,631	4,457	4,783	4,927	5,231	5,510
Bulgaria	163	196	243	249	277	293	297	291	364	372	352	395	419	437
Czech Republic	704	844	870	1,061	1,180	1,070	1,094	1,167	1,396	1,302	1,498	1,682	1,557	1,624
Denmark	1,394	1,421	1,617	1,722	1,717	1,933	1,915	2,219	2,301	2,347	2,381	2,448	2,684	2,728
Germany	14,654	15,140	17,284	18,872	17,781	20,365	20,317	21,710	22,215	22,246	23,773	23,127	25,770	26,174
Estonia	96	89	95	100	108	121	124	177	161	150	142	159	175	183
Greece	1,947	1,482	1,595	1,633	1,390	1,523	1,467	3,020	2,328	2,299	2,310	1,903	2,013	1,973
Spain	6,073	6,190	7,285	7,681	7,424	7,901	7,676	9,838	9,966	10,577	10,073	11,046	10,956	10,869
France	11,216	11,742	13,767	14,895	14,168	15,846	15,803	16,989	18,025	18,997	19,581	19,617	21,409	21,917
Ireland	972	974	958	959	893	956	946	1,586	1,577	1,442	1,394	1,339	1,401	1,416
Italy	9,144	9,186	10,502	11,490	11,807	12,026	11,894	14,024	15,144	14,469	15,332	16,078	16,436	16,513
Cyprus	88	95	119	125	125	131	130	170	180	191	184	185	185	190
Latvia	118	132	149	135	135	160	163	199	216	204	175	182	215	223
Lithuania	158	190	205	188	216	238	246	271	329	306	269	302	335	355
Luxembourg	202	172	197	199	217	237	239	296	259	270	261	293	312	320
Hungary	547	592	595	708	673	670	749	870	947	858	955	937	916	1,043
Malta	33	34	39	41	44	45	46	57	60	61	61	66	67	69
Netherlands	3,401	3,643	3,368	3,607	3,592	3,958	3,912	6,303	6,669	5,446	5,613	5,869	6,164	6,336
Austria	1,565	1,568	1,892	2,151	2,169	2,351	2,340	2,218	2,195	2,347	2,627	2,689	2,891	2,932
Poland	1,746	2,158	2,052	2,654	2,518	2,677	2,900	2,809	3,473	2,988	3,657	3,580	3,721	4,114
Portugal	940	940	1,089	1,360	1,219	1,226	1,204	1,460	1,466	1,548	1,848	1,734	1,664	1,659
Romania	682	741	911	868	910	1,051	1,056	1,089	1,218	1,282	1,143	1,226	1,381	1,407
Slovenia	198	227	259	253	254	265	262	359	408	409	387	401	407	416
Slovakia	303	361	468	454	479	535	539	519	595	675	647	694	765	797
Finland	1,088	1,127	1,217	1,268	1,449	1,526	1,529	1,629	1,710	1,704	1,702	1,956	2,051	2,088
Sweden	1,949	2,269	1,897	2,623	2,661	2,925	2,942	2,915	3,223	2,465	3,243	3,334	3,623	3,720
United Kingdom	12,551	10,925	10,889	13,080	12,356	14,331	14,793	13,429	10,114	9,588	14,659	13,825	15,908	16,274
Total	73,915	74,479	81,993	91,060	88,413	97,284	97,503	109,987	111,169	108,996	119,052	119,995	128,655	131,288

Notes:

1. Miscellaneous items of revenue and carry forwards of surpluses and deficits from previous years account for the differences between total Budget expenditure given in Table 1 and the own resources figures in Table 2.
2. With effect from 2009 the agricultural and sugar levies column contains just sugar levies. From 2009 onwards agricultural levies are incorporated in custom duties figures.
3. The figures for agricultural and sugar levies and customs duties are after the deduction of 25 per cent collection costs.
4. The figures for VAT contributions are after taking account of the UK rebate.
5. Because of rounding the column totals do not necessarily equal the sum of the individual items.

Source: Figures for 2007 to 2011 are taken from the European Commission's EU Budget reports: the latest edition EU Budget 2011 Financial Report was published in September 2012.

Figures for 2012 are taken from Amending Budget 6/2012 in the Official Journal of the European Union, 'Definitive adoption of amending Budget No 6 of the European Union for the financial year 2012'

Figures for 2013 are taken from 2013 Adopted Budget in the Official Journal of the European Union, 'Definitive adoption of the European Union's general Budget for the financial year 2013'

HM Treasury calculations

Table C.4: EU Budget Own Resources (£ million)

	Agricultural and Sugar Levies							Custom Duties							VAT Contributions						
	2007	2008	2009	2010	2011	2012	2013	2007	2008	2009	2010	2011	2012	2013	2007	2008	2009	2010	2011	2012	2013
Belgium	8	49	5	5	6	5	5	1,145	1,399	1,262	1,272	1,366	1,311	1,528	480	612	535	521	602	552	580
Bulgaria	10	19	0	0	0	0	0	32	50	47	36	42	42	51	46	64	68	52	60	60	63
Czech Republic	8	10	3	3	3	3	3	114	155	146	160	188	176	201	195	274	236	212	245	216	228
Denmark	22	39	3	3	3	3	3	204	234	249	260	281	267	305	339	427	399	302	350	340	356
Germany	103	257	24	23	23	21	21	2,036	2,397	2,598	2,605	2,975	2,762	3,085	2,689	2,973	1,795	1,575	1,640	1,600	1,674
Estonia	12	8	-	-	-	-	-	17	19	21	15	19	18	20	26	31	27	22	25	26	27
Greece	5	5	1	1	1	1	1	152	178	169	184	121	108	115	577	489	456	396	323	289	297
Spain	25	23	5	5	4	4	4	858	923	887	969	1,011	904	997	1,693	2,057	2,039	1,078	2,128	1,570	1,605
France	64	290	32	26	33	25	25	847	957	1,092	1,180	1,326	1,353	1,660	3,038	3,749	3,531	2,811	3,369	3,132	3,305
Ireland	0	1	-	-	-	-	-	149	159	157	159	173	161	177	271	319	274	214	214	200	207
Italy	99	95	5	3	3	4	4	1,055	1,216	1,335	1,427	1,508	1,353	1,468	2,185	3,427	2,191	1,865	2,195	2,219	2,297
Cyprus	8	7	3	-	-	-	-	24	29	28	23	21	16	20	24	32	33	28	31	27	29
Latvia	2	2	1	-	-	-	-	19	21	16	14	20	19	22	34	43	32	20	22	26	27
Lithuania	2	7	2	1	1	1	1	29	41	34	33	38	38	45	46	63	54	36	36	41	44
Luxembourg	0	1	0	-	-	-	-	13	11	10	11	12	12	13	51	58	56	43	54	49	53
Hungary	3	8	1	2	2	2	2	73	83	82	78	86	81	98	146	193	151	132	142	117	141
Malta	1	1	0	-	-	-	-	7	9	8	8	9	8	9	9	11	11	9	11	9	10
Netherlands	173	215	6	6	6	6	6	1,109	1,401	1,526	1,494	1,673	1,524	1,702	704	789	318	221	296	259	269
Austria	0	13	2	3	3	3	3	137	147	137	140	162	160	196	309	338	266	266	286	275	285
Poland	26	98	2	11	12	10	10	205	261	264	262	294	286	348	496	687	566	588	616	551	633
Portugal	14	12	0	-	0	0	0	79	95	105	115	117	98	111	262	311	303	303	331	257	260
Romania	20	33	1	1	1	1	1	89	126	110	86	95	88	102	170	220	219	150	178	179	184
Slovenia	0	1	-	-	-	-	-	56	71	61	57	64	59	67	54	73	72	57	63	56	59
Slovakia	3	5	1	1	1	1	1	59	84	73	91	101	98	116	86	97	110	73	84	88	93
Finland	6	4	1	1	1	1	1	96	128	102	108	132	121	138	269	331	331	264	307	304	318
Sweden	15	24	2	5	2	2	2	285	337	327	368	403	393	451	361	397	176	159	179	171	182
United Kingdom	308	353	9	8	8	8	8	1,510	1,635	1,978	2,147	2,206	2,086	2,160	-1,217	-2,633	-3,145	-801	-940	-815	-960
Total	940	1,579	110	105	114	100	101	10,400	12,165	12,823	13,303	14,444	13,543	15,205	13,342	15,433	11,106	10,595	12,846	11,795	12,266

EU Budget Own Resources (£ million) – continued

	Fourth Resource Contributions							TOTALS						
	2007	2008	2009	2010	2011	2012	2013	2007	2008	2009	2010	2011	2012	2013
Belgium	1,359	1,623	2,166	2,303	2,301	2,373	2,384	2,991	3,683	3,968	4,101	4,275	4,242	4,497
Bulgaria	112	156	217	214	240	237	242	199	289	331	302	343	339	357
Czech Republic	482	671	774	909	1,024	867	893	798	1,110	1,159	1,284	1,460	1,262	1,325
Denmark	954	1,130	1,439	1,476	1,490	1,567	1,562	1,518	1,830	2,089	2,041	2,124	2,176	2,226
Germany	10,027	12,040	15,387	16,182	15,429	16,514	16,580	14,855	17,666	19,805	20,385	20,067	21,897	21,361
Estonia	66	71	84	86	94	98	101	121	128	133	122	138	142	149
Greece	1,332	1,178	1,420	1,400	1,206	1,235	1,197	2,066	1,851	2,046	1,981	1,651	1,633	1,610
Spain	4,156	4,922	6,486	6,586	6,442	6,407	6,264	6,731	7,925	9,416	8,637	9,585	8,884	8,870
France	7,674	9,338	12,256	12,773	12,294	12,849	12,897	11,624	14,334	16,912	16,790	17,022	17,360	17,887
Ireland	665	775	852	822	775	775	772	1,085	1,254	1,284	1,196	1,162	1,136	1,156
Italy	6,256	7,305	9,349	9,852	10,244	9,752	9,707	9,596	12,043	12,881	13,147	13,951	13,328	13,476
Cyprus	60	76	106	108	108	107	106	116	143	170	158	160	150	155
Latvia	81	105	133	116	117	130	133	136	171	182	150	158	174	182
Lithuania	108	151	182	161	187	193	201	185	262	272	231	262	272	290
Luxembourg	138	137	175	170	188	192	195	202	206	240	224	254	253	261
Hungary	374	471	530	607	584	543	611	595	753	764	819	813	742	851
Malta	22	27	35	35	38	37	37	39	48	54	53	58	54	56
Netherlands	2,327	2,897	2,998	3,093	3,117	3,209	3,193	4,313	5,303	4,848	4,813	5,092	4,998	5,171
Austria	1,071	1,247	1,684	1,844	1,882	1,907	1,909	1,518	1,745	2,089	2,253	2,333	2,344	2,393
Poland	1,194	1,716	1,827	2,276	2,185	2,170	2,367	1,922	2,761	2,660	3,136	3,107	3,018	3,358
Portugal	643	748	970	1,166	1,057	994	983	999	1,166	1,378	1,585	1,505	1,349	1,354
Romania	466	589	811	744	790	852	862	745	968	1,141	980	1,064	1,120	1,148
Slovenia	136	180	230	217	221	215	214	246	325	364	331	348	330	339
Slovakia	207	287	416	390	416	433	440	355	473	601	555	602	620	650
Finland	744	896	1,083	1,087	1,257	1,237	1,247	1,115	1,360	1,517	1,460	1,697	1,663	1,704
Sweden	1,334	1,804	1,689	2,249	2,309	2,372	2,401	1,995	2,563	2,194	2,781	2,892	2,938	3,036
United Kingdom	8,588	8,688	9,694	11,215	10,721	11,620	12,073	9,188	8,043	8,535	12,570	11,996	12,900	13,281
Total	**50,575**	**59,227**	**72,993**	**78,082**	**76,714**	**78,887**	**79,572**	**75,256**	**88,404**	**97,033**	**102,085**	**104,118**	**104,325**	**107,144**

Source: Sterling figures are derived from the corresponding euro amounts in Table C.3 converted at the appropriate exchange rate (see glossary).

Table C.5: United Kingdom contributions to, rebate, and public sector receipts from the EU Budget

	£ million							€ million						
	2007	2008	2009	2010	2011	2012	2013	2007	2008	2009	2010	2011	2012	2013
GROSS CONTRIBUTIONS														
Sugar levies	448	439	225	10	9	13	12	307	349	200	8	8	10	9
Customs Duties	2,204	2,031	2,024	2,503	2,554	2,703	2,797	1,508	1,615	1,802	2,146	2,216	2,192	2,282
VAT Own Resources	3,352	2,835	1,947	2,534	2,505	2,811	2,896	2,293	2,254	1,733	2,172	2,174	2,279	2,364
Fourth Resource payments	11,684	10,845	11,986	12,465	12,615	14,059	15,352	7,994	8,624	10,670	10,689	10,946	11,401	12,529
VAT & Fourth Resource adjustments	517	-238	-311	212	14	-168	-	354	-189	-277	181	13	-136	-
United Kingdom rebate	-5,149	-6,114	-6,057	-3,553	-3,623	-3,835	-4073	-3,523	-4,862	-5,392	-3,047	-3,143	-3,110	-3,324
Total Contributions	13,056	9,798	9,814	14,169	14,076	15,583	16,984	8,933	7,791	8,737	12,150	12,214	12,636	13,861
PUBLIC SECTOR RECEIPTS														
FEAGA	4,079	3,099	3,269	3,393	3,073	3,395	4,764	2,791	2,465	2,910	2,910	2,667	2,753	3,888
EAFRD	33	523	242	512	483	359	124	23	416	215	439	419	291	101
European Regional Development Fund	1,033	1,221	717	884	698	540	515	707	971	639	758	605	438	420
European Social Fund	1,163	765	684	750	448	721	923	795	608	609	644	389	585	753
Other Receipts	24	47	31	32	76	135	92	16	37	28	18	52	101	75
Total Receipts	6,331	5,655	4,943	5,571	4,778	5,511	6,417	4,332	4,497	4,401	4,768	4,132	4,168	5,237
Net Contributions	6,725	4,143	4,871	8,599	9,298	10,432	10,567	4,601	3,294	4,336	7,382	8,082	8,468	8,624

Notes:
1. For all years, the amounts for the UK's gross contribution in this table reflect payments made during the calendar year, not payments to particular EU Budgets. They differ from the figures for gross contributions in Table 2 in that these figures, drawn from European Commission documents, relate to payments to particular EU Budgets.
2. Prior to 2010, Sugar Levies row also includes figures for duties on agricultural products.
3. Euro figures in this table have been converted from sterling using the appropriate exchange rate (see glossary).
4. The figures for 2013 are based on the Office for Budget Responsibility Forecast and HM Treasury calculation. Those for earlier years are outturn.
5. Because of rounding, the column totals do not necessarily equal the sum of the individual items.

Source: Office for Budget Responsibility and HM Treasury

D Report on the use of EU funds in the UK

Background

D.1 As part of ongoing work to improve the accountability for, and transparency of, EU funds, this annex is produced as an interim report that consolidates data on the use of EU funds in the UK.

D.2 HM Treasury has previously produced a Consolidated Statement for each of the financial years 2006-07, 2007-08, and 2008-09, which the Comptroller and Auditor General was invited to audit. The preparation, audit and publication of the Consolidated Statement was designed to strengthen Parliamentary scrutiny of the UK's management of those funds and assist in the detection of any weaknesses in control systems, which can then be tackled quickly and effectively.

D.3 Following a review, HM Treasury has committed to further strengthening Parliamentary scrutiny of the financial relationship between the EU and the UK Government by working with the NAO and Managing Authorities to further develop this Statement. The revised approach will aim to draw on well-established data collection and assurance systems and processes to raise the quality of the financial information collected, as well as improving the consistency of accountancy policies applied.

D.4 During the development phase, the Government is committed to maintaining the greatest possible transparency on the use of EU funds at a consolidated level by publishing interim reports such as this.

Responsibilities of the UK Parliament and Devolved Administrations

D.5 In accordance with the devolution settlement, relations with the EU are the responsibility of the Parliament and Government of the United Kingdom, as a Member State. Responsibility for implementing EU obligations relating to devolved matters lies with the Devolved Administrations. The proper administration of EU Funds in Northern Ireland, Scotland and Wales is a matter for the relevant Devolved Administration. This report is prepared without prejudice to the devolution of responsibilities.

Preparation of the report

D.6 HM Treasury has assumed responsibility for developing the format of this report and for collating the financial data provided by Managing Authorities which it includes. Managing Authorities are the bodies which have responsibility for the managing the payment of EU programme funds to final beneficiaries in the UK.

D.7 Managing Authorities, however, remain accountable for the propriety of the reported spending, which is publicly disclosed in their annual financial statements and is subject to external audit. This report therefore brings together financial information relating to the use of EU funds by the UK but does not replace individual accountabilities. The Comptroller and Auditor General have not been invited to audit this interim report.

D.8 By bringing together this financial information, the report supports greater scrutiny of the UK's management of EU funds and of the financial relationship between the UK and the EU.

Boundary of the report

D.9 The report shows expenditure on co-managed EU schemes in the UK and the corresponding income from the EU. The main schemes for which the EU and UK share management responsibility include the disbursement of Common Agricultural Policy Funds and the Structural Funds, where the UK pays beneficiaries on behalf of the EU.

D.10 The report excludes:

- amounts received from the EU where UK central government is the beneficiary;
- amounts in respect of commercial contracts awarded to UK central government bodies by the EU;
- financial support for twinning projects where EU funding is transferred to other Member States or to mandated bodies for their part in the project.[1] The transactions are not reported as income and expenditure of the relevant Managing Authority; and
- the purchase of intervention stocks with UK funds which are accounted for in the financial statements of the Department for Environment, Food and Rural Affairs (DEFRA).[2]

D.11 The EU Framework Programme (the EU's primary mechanism for supporting transnational collaborative research and technological development) is covered independently in this document. It is not included in the managed scheme information. This is because the EU Framework Programme is provided directly to civil investees and as such, the UK Government is not a Managing Authority.

Management of EU funded schemes

D.12 The Treaty establishing the European Union provides the basic framework for the Budget of the EU. The Budget includes a number of separate funds, including the European Agricultural Fund of Guarantee (FEAGA), the European Agricultural Fund for Rural Development (EAFRD), the European Regional Development Fund (ERDF) and the European Social Fund (ESF).

D.13 These schemes are overseen by the European Commission. Responsibility for financial reporting to the Commission falls to national authorities who are responsible for the co-management of schemes with Managing Authorities.

D.14 The Commission can impose disallowances on Managing Authorities for failing to correctly apply EU Regulations in managing and administering EU schemes. In such circumstances the EU reduces the amount paid to the UK.

(a) Agricultural Policy Funds

D.15 The Single Payment Scheme (SPS) is the principal agricultural subsidy scheme in the EU, funded by the FEAGA and EAFRD.

D.16 Under EU Regulation 885/06, each paying agency must have an internal audit service independent of the other arms of the entity that reports directly to the agency's director. Paying agencies are the bodies of a Member State responsible for disseminating payments of EU funds to approved programmes, keeping accurate information on these payments and guaranteeing

[1] Twinning projects are EU funded projects that support the capacity building in new Member States or the Candidate Countries. They are delivered by the public sector, usually by central government. These are funded through pre-accession funds.

[2] Intervention stocks are stocks held by paying agencies in the European Union as a result of intervention buying of commodities subject to market support. Intervention stocks may be released onto the internal markets if internal prices exceed intervention prices; otherwise, they may be sold on the world market.

that EU legislation is complied with. The internal audit services are required to verify that the procedures adopted by the agency are adequate to ensure compliance with Union rules and that accounts are accurate, complete and timely.

D.17 The Certifying Body for the agricultural funds reports on whether the annual accounts of the paying agencies are in all material respects true, complete and accurate and that internal control procedures have operated satisfactorily. The Certifying Body reports have confirmed that internal audit in all the UK paying agencies is operating to a high standard, although further improvement is required in respect of the administration of the SPS and compliance with European Regulations where internal audit have highlighted issues that risk disallowance penalties.

(b) Structural Funds

D.18 The Structural Funds are the financial tools set up to implement cohesion policy in the EU, and are made up of the European Regional Development Fund (ERDF) and the European Social Fund (ESF). For more details on these programmes please refer to the glossary of this document.

D.19 The Managing Authorities responsible for the control of Structural Fund expenditure ensure that all systems are subject to regular examination by internal audit. The Internal Audit results strengthen procedures during the implementation of programmes and provide assurance as to the accuracy, completeness and regularity of expenditure, certified to the Commission.

D.20 Recent internal audit work within Managing Authorities has generally reported a positive picture with most having a satisfactory level of assurance that systems operate adequately. Where this was not the case, action plans were agreed to address weaknesses.

Timing of expenditure and the related EU funding

D.21 Managing Authorities are required to account for expenditure on EU-funded schemes and the related funding from the EU on an accruals basis under International Financial Reporting Standards (IFRS) as applied to the public sector context by the Government Financial reporting Manual (FReM). By contrast, the public sector receipts in Table 3.D are reported on a cash basis.

D.22 There is normally a time lag between payment to beneficiaries and settlement of claims by the EU. The UK Exchequer therefore has to bear the cost of the programme until EU funding is received. Expenditure is recognised as it is incurred, with a matching debtor from the EU. The debtor is extinguished when the EU approves the subsequent claim and the release of funds to the UK.

D.23 The final settlement of claims by the EU may give rise to adjustments following the closure process or disallowances (see paragraphs D.35 to D.37 below). The Commission may make such adjustments several years after funds have been paid out by Managing Authorities to recipients. The Statement includes provision for possible future adjustments. A provision is where there is a past event which will probably lead to the EU disallowing expenditure and not reimbursing the UK.

Management of EU funded schemes

Expenditure on EU funded schemes

D.24 This section of the document covers the expenditure on EU funded schemes between 2009-10 and 2012-13.

D.25 The Expenditure Statement (Table D.1) shows the EU funded element of amounts paid out by UK central Government bodies on projects supported wholly or partially by the EU on which the UK anticipates EU funding at the point the payment is made.

D.26 Gross expenditure on EU supported projects is recognised in the period in which it becomes payable by UK Central Government to the recipient under the rules of the relevant scheme. The amount shown in the Expenditure Statement represents the amount paid and payable in Sterling during the period to beneficiaries.

D.27 Net expenditure represents the amount receivable from the EU in respect of amounts paid or payable by the UK on EU supported projects, after taking account of provisions for disallowances, foreign exchange gains or losses and withdrawals from claims.

D.28 The Statement of Assets and Liabilities (Table D.2) shows those assets and liabilities that stem from cash flows, where e.g. the UK has paid a claim from a beneficiary and is awaiting reimbursement from the EU. The disallowances provision relates to amounts paid out by the UK for which it believes it probable that the EU will apply financial corrections and not fully reimburse the UK.

D.29 The Expenditure Statement (Table D.1) shows gross expenditure on EU-supported schemes from 2009-10 to 2012-13. After allowing for foreign exchange variations and adjustments to claims, the amount reimbursable by the EU was £4.8 billion in 2009-10, £4.3 billion in 2010-11, £4.7 billion in 2011-12, and £4.2 billion in 2012-13, the balance being met by the UK Exchequer.

D.30 A breakdown of expenditure by scheme is provided on in Tables D.3 to D.6.

D.31 In recognition of likely future funding adjustments, Managing Authorities made net new provisions totalling £35 million in 2012-13, against claims for reimbursement from the EU. After allowing for the use of provisions following the crystallisation of adjustments, total provisions at 31 March 2013 amounted to £151 million, over £200 million less than the corresponding figure at the end of the 2009-10 financial year. A breakdown of the movement in provisions by scheme is provided in Tables D.7 to D.10.

Expenditure Statement

Table D.1: Expenditure Statement
For the years ended 31 March 2010, 2011, 2012 and 2013 (prior years restated[3])

	2009-10	2010-11	2011-12	2012-13*
	£000	£000	£000	£000
Gross expenditure on EU supported projects	5,051,379	4,397,505	4,773,977	4,216,794
Provisions created in year	-273,302	-75,006	-92,647	-34,850
Provisions released in year	46,551	19,856	22,817	10,495
Realised forex gain/(loss)	73,441	-35,739	-23,617	114,930
Unrealised forex gain/(loss)	-62,535	2,779	51,182	-102,488
Withdrawn from EU claim	-13,684	-49,743	-18,063	-35,841
Net expenditure reimbursable by the EU	**4,821,850**	**4,259,652**	**4,713,649**	**4,169,040**

* 2012-13 balances include the latest available information. Some Managing Authority returns are based on un-audited annual accounts.

[3] Prior years have been restated where necessary to amend previously published figures, to reflect the correction of errors, new information that has arisen or a change in accounting policy.

Table D.2: Statement of Assets and Liabilities as at 31 March 2010, 2011, 2012 and 2013 (prior years restated)

	2009-10	2010-11	2011-12	2012-13*
	£000	£000	£000	£000
Assets				
Advances to beneficiaries	272,812	219,642	25,594	17,340
EU funds receivable	1,925,110	1,931,886	1,763,336	1,763,235
Other assets	3,189	1,798	254,299	207,990
	2,201,111	**2,153,326**	**2,043,229**	**1,988,565**
Liabilities				
EU funds paid on account	-1,520,165	-1,938,419	-1,860,340	-997,802
Amounts payable to beneficiaries	-466,361	-140,863	-183,401	-186,053
Repayable to EU	-10,132	-3,525	-2,697	-238,694
Provision for disallowances	-359,367	-177,886	-212,390	-150,890
Other liabilities	-53,392	-24,607	-66,734	285
	-2,409,417	**-2,285,300**	**-2,325,562**	**-1,573,154**
Net Assets / (Liabilities)	**-208,306**	**-131,974**	**-282,333**	**415,411**

* 2012-13 balances include the latest available information. Some Managing Authority returns are based on un-audited annual accounts.

Accounting policies

Basis of preparation

D.32 This report has been prepared by consolidating the relevant transactions and balances as recorded by the Managing Authorities in their financial statements prepared in accordance with the FReM. The report is prepared under the historical cost convention, which is an accounting method that, for the purposes of the balance sheet, values assets at the price paid for them at the time they were acquired.

Expenditure recognition

D.33 Gross expenditure on EU supported projects is recognised in the period in which it becomes payable by UK Central Government to the recipient under the rules of the relevant scheme. The amount shown in these accounts represents the amount paid and payable in Sterling during the period to bodies outside the central Government boundary. Net EU expenditure represents the amount receivable from the EU (converted into sterling after disallowances and foreign exchange gains or losses) in respect of amounts paid or payable by the UK on EU supported projects.

Foreign currency translation

D.34 The Commission makes payments in Euros, with the Managing Authority recognising the receivable in Sterling in line with the requirements of International Accounting Standard (IAS) 21, The Effects of Changes in Foreign Exchange Rates. Foreign exchange gains and losses are realised where there are variations in exchange rates between the date EU income is recognised by the Managing Authority and the date payment is received from the EU. Such gains and losses are recognised in the Expenditure Statement (Table D.1). Unrealised gains and losses arising from the revaluation of assets and liabilities at the exchange rate current at the balance sheet date, also reported in the Expenditure Statement, are reported in the accounts of Managing Authorities within the Statement of Changes in Taxpayers' Equity. Any hedging mechanisms used to mitigate the impact of foreign exchange losses are not included in this report as they do not impact on the amounts paid out on EU projects or the funding provided by the EU.

Disallowances provision and contingent liabilities

D.35 Probable disallowances arising from financial corrections are recognised in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. A provision is recognised where there is a past event – for example an ineligible payment or a failure to comply with the regulations governing a scheme – which will probably lead to the EU disallowing expenditure and not reimbursing the UK. Managing Authorities are responsible for estimating the value of any provisions required.

Analysis of Net Expenditure by EU Scheme

Table D.3: Analysis of Net Expenditure by EU Scheme 2009-10

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
Gross expenditure in the United Kingdom	3,575,764	475,367	939,016	61,232	5,051,379
Total disallowances provided for	-149,567	-20,461	-101,745	-1,529	-273,302
Total disallowances released	0	11,324	35,227	0	46,551
Total foreign exchange gains/(losses)	32,023	9,935	-30,798	-254	10,906
Total withdrawn from EU claim	-2,623	-8,773	-2,288	0	-13,684
Net expenditure reimbursable by EU	3,455,597	467,392	839,412	59,449	4,821,850

Table D.4: Analysis of Net Expenditure by EU Scheme 2010-11 (restated)

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
Gross expenditure in the United Kingdom	3,312,286	561,330	484,584	39,305	**4,397,505**
Total disallowances provided for	-67,419	0	-7,122	-465	**-75,006**
Total disallowances released	11,585	0	5,973	2,298	**19,856**
Total foreign exchange gains/(losses) (restated)	-17,877	-7,193	-6,906	-984	**-32,960**
Total withdrawn from EU claim (restated)	-1,171	-1,999	-46,573	0	**-49,743**
Net expenditure reimbursable by EU	**3,237,404**	**552,138**	**429,956**	**40,154**	**4,259,652**

Table D.5: Analysis of Net Expenditure by EU Scheme 2011-12 (restated)

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
Gross expenditure in the United Kingdom	3,695,178	470,955	574,501	33,343	**4,773,977**
Total disallowances provided for (restated)	-90,049	-1,696	0	-902	**-92,647**
Total disallowances released (restated)	1,300	0	21,398	119	**22,817**
Total foreign exchange gains/(losses) (restated)	3,798	4,727	19,215	-175	**27,565**
Total withdrawn from EU claim (restated)	0	20	-18,083	0	**-18,063**
Net expenditure reimbursable by EU	**3,610,227**	**474,006**	**597,031**	**32,385**	**4,713,649**

Table D.6: Analysis of Net Expenditure by EU Scheme 2012-13*

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
Gross expenditure in the United Kingdom	3,234,417	321,054	604,264	57,059	4,216,794
Total disallowances provided for	-34,616	0	0	-234	-34,850
Total disallowances released	10,427	0	0	68	10,495
Total foreign exchange gains/(losses)	10,667	4,849	-3,413	339	12,442
Total withdrawn from EU claim	-17	0	-34,256	-1568	-35,841
Net expenditure reimbursable by EU	3,220,878	325,903	566,595	55,664	4,169,040

* 2012-13 balances include the latest available information. Some Managing Authority returns are based on un-audited annual accounts

Provisions for future financial corrections (disallowances)

D.36 As previously stated, disallowances are financial corrections imposed by the Commission on Managing Authorities for failing to correctly apply EU Regulations in managing and administering EU schemes. In such circumstances the EU reduces the amount paid to the UK.

D.37 The European Commission may identify erroneous payments or deficiencies in the operation of Managing Authority systems, and consequently, they can disallow expenditure. In the case of deficiencies in systems, the EU normally impose flat-rate disallowances at the rate of 2 per cent, 5 per cent, or 10 per cent of annual expenditure, depending on the severity of the failings. The EU will not reimburse the UK for the expenditure incurred. The costs then fall on the Exchequer, unless the amount can be recovered from the beneficiary. The ultimate financial impact on the UK taxpayer will, however, be less than this, due to the operation of the rebate system. For more details on the rebate system please see the glossary of this document.

D.38 As demonstrated by the data below, the vast majority of provisions in 2012-13 related to Agricultural Policy Funding.

Table D.7: Provisions for future financial corrections 2009-10 (restated)

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
As at 31 March 2010	-259,150	-33,795	-62,904	-3,518	-359,367

Table D.8: Provisions for future financial corrections 2010-11 (restated)

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
As at 1 April 2010	-259,150	-33,795	-62,904	-3,518	**-359,367**
Created during the year	-67,419	0	-7,122	-465	**-75,006**
Released in year	11,585	0	5,973	2,298	**19,856**
Utilised	180,009	33,795	22,555	272	**236,631**
As at 31 March 2011	**-134,975**	**0**	**-41,498**	**-1,413**	**-177,886**

Table D.9: Provisions for future financial corrections 2011-12 (restated)

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
As at 1 April 2011	-134,975	0	-41,498	-1,413	**-177,886**
Created during the year	-90,049	-1,696	0	-902	**-92,647**
Released in year	1,300	0	21,398	119	**22,817**
Utilised	29,170	1,696	4,336	124	**35,326**
As at 31 March 2012	**-194,554**	**0**	**-15,764**	**-2,072**	**-212,390**

Table D.10: Provisions for future financial corrections (2012-13*)

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
As at 1 April 2012	-194,554	0	-15,764	-2,072	**-212,390**
Created during the year	-34,616	0	0	-234	**-34,850**
Released in year	10,427	0	0	68	**10,495**
Utilised	21,924	0	140	0	**22,064**
As at 31 March 2013	**-196,819**	**0**	**-15,624**	**-2,238**	**-214,681**

* 2012-13 balances include the latest available information. Some Managing Authority returns are based on un-audited annual accounts.

Research programme grant receipts

D.39 The Framework Programme (currently FP7) is the EU's primary mechanism for supporting transnational collaborative research and technological development. The current programme runs from 2007-13 with an overall Budget of €50.5 billion (£41.21 billion) (excluding the Euratom programme).

D.40 The UK Government does not manage any of the FP7 EU funding, which is awarded directly to programme participants, although as a representative of EU Comitology Committee, the Government does manage the various parts of FP7.

D.41 FP7 activities are split into four main specific programmes:

- the Cooperation Programme has the largest share of the overall Budget (€32 billion (£26.1 billion));
- the Ideas Programme operates through the European Research Council and is the main instrument promoting excellence, providing grants to individual researchers;
- the People Programme, through the Marie Curie actions, provides grants in support of researcher mobility and training; and
- the Capacities Programme, through a variety of actions, provides support to develop Europe's research capacity.

D.42 The Commission's July 2013 update on signed grant agreement data shows that UK organisations overall have been awarded a maximum of €5.2 billion (£4.2 billion), which accounts for 15.2 per cent of the EU funding so far awarded. These receipts are not included in the above tables, which provide data on public sector receipts only.

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