HM Treasury

European Union Finances 2014:

statement on the 2014 EU Budget and measures to counter fraud and financial mismanagement

Cm 8974

December 2014

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Presented to Parliament by the
Financial Secretary to the Treasury
by Command of Her Majesty

December 2014

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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 fourth in the series and describes the EU Budget for 2014, as adopted by the Council and 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 2013-14 (together with estimates for 2014-15 to 2018-19) and over the calendar years 2007 to 2013 (together with an estimate for 2014). Details of recent developments in EU financial management and the fight against fraud affecting EU funds are also provided.

2 The 2014 EU Budget

2.1 The EU Annual Budget is negotiated beneath the ceilings set in the Multi-Annual Financial Framework (MFF). Box 2.A provides information about the current MFF for 2014-2020, 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 MFF for 2014-20 set the payment ceiling for the 2014 EU Annual Budget.

The 2014 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 2014 EU Budget was agreed under the Lithuanian Presidency of the EU in the second half of 2013. Negotiations began in June 2013, when the Commission proposed a draft EU Budget for 2014. This proposed a total of €135.9 billion (£113.3 billion)[1] in EU spending (payments appropriations). The Council agreed amendments to this draft Budget in September 2013, proposing to reduce the Commission's proposal to €134.8 billion (£112.4 billion). In October 2013, the European Parliament provided its position, which would have set the level of EU spending in 2014 to €136.1 billion (£113.5 billion).

2.3 Following a process of conciliation between the Council and European Parliament the 2014 EU Budget was formally agreed. The adopted 2014 EU Budget provides for commitment appropriations of €142.6 billion (£118.9 billion), equivalent to 1.06% of EU Gross National Income (GNI); and payment appropriations of €135.5 billion (£113.0 billion), equivalent to 1.00% 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 adopted Budget.

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

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

2.7 Following a series of budget amendments – in year changes to expenditure and revenue in the adopted EU Budget – an additional €3.5 billion payment appropriations were added to the adopted 2014 EU Budget. The €3.5 billion is comprised of approximately €350 million regular payments and the mobilisation of the 'Contingency Margin' for €3.2 billion. The 'Contingency Margin' enables expenditure from future years of the MFF to be drawn forward to 2014. This drawn forward expenditure must be offset by an equivalent reduction to the ceilings in future years of the MFF. This left a final 2014 EU Budget of €139.0 billion which delivered on the Prime Minister's MFF deal, representing a cash and real terms cut to the final 2013 EU Budget of €144.45 billion. Further details on budget amendments and the final 2014 EU Budget can be found in box 2.B

[1] 2014: £1 = €1.199472. This is the 31 December 2013 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 2014.

Box 2.A: The current 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.

The Prime Minister was clear that, when Member States are demonstrating greater fiscal discipline domestically, we should not be spending more through the EU. Negotiations concluded with leaders agreeing to an unprecedented real-terms cut in the payment limit to €908 billion for the 7 year period (in 2011 prices). That is €80 billion lower than the original proposal made by the European Commission and €35 billion lower than the deal agreed by the last government in 2005 for the previous period 2007-13.

The ceiling for commitments was also cut in real terms, from €994 billion in the 2007-13 MFF period to €960 billion in the current MFF period, as was the budget from special instruments, which fell from €14 billion to €10 billion (all figures in 2011 prices).

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. Such a reorientation of expenditure within a smaller budget overall makes for more efficiency in EU spending and better value for the taxpayer. 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. The government also secured these 2 vital objectives.

The 2014 EU Budget is the first annual budget that has been negotiated under the 2014-2020 MFF and is evidence of the fiscal restraint which the deal agreed by the Prime Minister is delivering.

Table 2.A: 2014 EU Budget

€ million

Payment Appropriations	Financial Perspective Ceiling[1]	Commission draft 2014 EU Budget	Council position	Adopted 2014 EU Budget	Final 2014 EU Budget[2]	Final 2013 EU Budget[3]
1. Smart and Inclusive Growth		62,789	62,160	62,393	65,300	69,127
1a. Competitiveness and Growth for Jobs		*11,695*	*11,268*	*11,441*	*11,863*	*12,778*
1b. Economic, Social and Territorial Cohesion		*51,094*	*50,891*	*50,952*	*53,437*	*56,350*
2. Sustainable Growth: Natural Resources		56,533	56,420	56,459	56,444	57,814
3. Security and Citizenship		1,668	1,658	1,677	1,666	1,894
4. Global Europe		6,251	6,095	6,191	6,841	6,732
5. Administration		8,597	8,443	8,406	8,405	8,418
Total Payment Appropriations (excluding the Contingency Margin)	135,866	136,066	135,005	135,505	135,866	144,451
Total Payment Appropriations (including the Contingency Margin)	139,893[4]				139,034	N/A

[1] Total Member State GNI bases agreed at the Advisory Committee on Own Resources Forecast meeting on 16 May 2013 and HM Treasury calculation

[2] Includes agreed Amending Budgets 1-8

[3] Includes agreed Amending Budgets 1-9

[4] This is the maximum amount of expenditure which could be called upon within 2014, with spending at the annual ceiling and full mobilisation of the Contingency Margin.

Note: Because of rounding the column totals do not necessarily equal the sum of individual items.

Sources: Council of the European Union 'Council's position for 2014 EU Budget adopted'
Official Journal of the European Union, 'Definitive adoption of Amending Budget No 9 of the European Union for the financial year 2013'
Official Journal of the European Union, 'Definitive adoption of the European Union's general Budget for the financial year 2014'
Figures for Final 2014 EU Budget are taken from Council documents

Box 2.B: Budget Amendments and the Final 2014 EU Budget

Table 2.A shows payment appropriations for the adopted 2014 EU Budget. This is the original 2014 EU Budget which was formally agreed by the Council and European Parliament in November 2013. Budget amendments are any mid-year changes to expenditure or revenue proposed by the Commission.

Table 2.A also shows the final agreed 2014 EU Budget. This includes all of the Budget amendments which have been approved by the Council and European Parliament, which are Amending Budgets 1-8. These add €3.5 billion payment appropriations to the 2014 EU Budget.

The €3.5 billion is comprised of €350 million regular payments and the mobilisation of the 'Contingency Margin' for €3.2 billion. The 'Contingency Margin' enables expenditure from future years of the MFF to be drawn forward to 2014. This drawn forward expenditure must be offset by an equivalent reduction to the ceilings in future years of the MFF. This leaves the total MFF ceiling across the period 2014-2020, as agreed by the Prime Minister unchanged.

This leaves a final 2014 EU Budget of €139.03 billion, which represent a cash and real terms cut to the final 2013 EU Budget of €144.45 billion.

In line with established practice in previous editions of the EU Finances White Paper, it is the Adopted 2014 EU Budget that will be referred to in the text, used in tables and displayed in charts throughout this document, unless stated otherwise.

2.8 Details of the levels of payments in the adopted 2014 EU Budget are as follows:

- **Heading 1: Smart and Inclusive Growth**. Expenditure in this area includes research and development, education and training, employment and social policy. Payments for Heading 1 overall were set at €62.39 billion (£52.01 billion) for 2014, a reduction of 9.7% compared with Budget 2013.[1]

  Payments towards research, learning, and innovation (Heading 1a) were set at €11.44 billion (£9.54 billion), a 10.5% reduction compared to 2013. Payments toward fostering regional growth and employment (Heading 1b) were set at €50.95 billion (£42.48 billion). This was a 9.6% reduction compared to 2013.

- **Heading 2: Sustainable Growth: 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 €56.46 billion (£47.07 billion) in the 2014 Budget, a 2.3% reduction compared to 2013.

- **Heading 3: Security and Citizenship**. Expenditure in this area includes immigration, migration, security, and fundamental rights and justice. Payments for Heading 3 overall in 2014, excluding those associated with the European Union Solidarity Fund, were set at €1.68 billion (£1.40 billion), an 11.5% reduction compared to 2013.

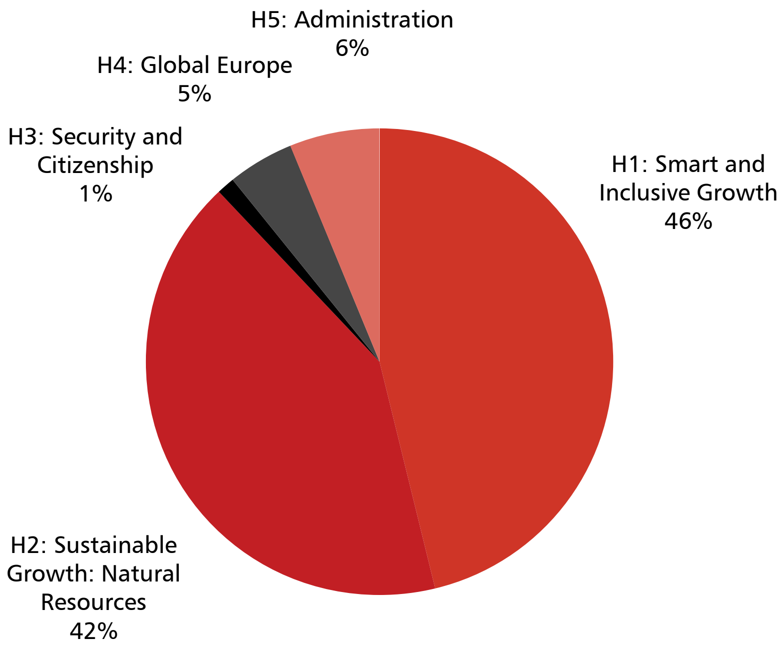
- **Heading 4: Global Europe.** Expenditure in this area includes EU foreign policy and international development expenditure.

[1] Budget 2013 includes Adopted Amending Budgets 1-9

Payments in 2014 for Heading 4 were set at €6.19 billion (£5.16 billion). This is a reduction of 8% compared to 2013.

- **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 2014 under Heading 5 have been set at €8.41 billion (£7.01 billion), a 0.1% decrease compared to 2013.

Chart 2.A: 2014 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 2014'

EU revenue

2.9 The Own Resources Decision provides for 4 sources of EU revenue: customs duties, including those on agricultural products; sugar levies; contributions based on VAT; and GNI-based contributions. The first 2 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.

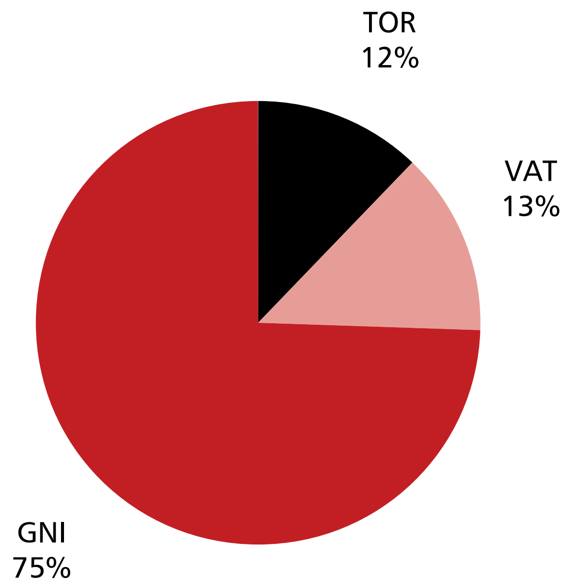
2.10 Chart 2.B shows a breakdown of the estimates of how the 2014 EU Budget will be financed. Tables C.3 shows the gross contributions by Member State, after taking account of the UK rebate, over the period 2008 to 2014. The key points to note[2] are:

[2] Source: European Commission, 'Budget 2014: financing of the general budget'

- overall EU TOR in 2014 is estimated to be €16.3 billion (£13.6 billion), with the UK's share estimated at 16.1%. In 2013, final estimates of revenue from this source were €14.8 billion (£12.6 billion), of which the UK's share was 15.9%
- overall EU VAT-based contributions in the 2014 EU Budget are €17.9 billion (£14.9 billion), with the UK's share estimated as 16.0%. In 2013, total VAT-based contributions were €14.7 billion (£12.5 billion), of which the UK's share was 19.6%
- GNI-based contributions in the 2014 EU Budget are €100.3 billion (£83.6 billion), of which the UK's share is 14.5%. In 2013, GNI-based contributions were €110.8 billion (£94.1 billion) with a UK share of 14.9%; and
- the estimated value of the UK's rebate in 2014 is €5.3 billion (£4.4 billion) compared with €4.5 billion (£3.8 billion) in the 2013 EU Budget. A detailed explanation of how the UK rebate is calculated, and how it operates, can be found in the glossary

2.11 Chart 2.C shows each Member States' share of financing the 2014 EU Budget, after taking account of the UK rebate.

Chart 2.B: 2014 EU Budget revenue



Source: Official Journal of the European Union, 'Definitive adoption of the European Union's general Budget for the financial year 2014'

Box 2.C: EU Budget surcharge

In any year, there are revisions to data used in calculations of Member States contributions to the EU. This year, as a result of revisions to Member States' underlying data over a long historical period (as far back as 2002 for most Member States, including the UK, and back to 1995 for 1 Member State), the adjustments to Member State contributions were on an unprecedented scale. In October the UK was presented with a bill for an additional payment worth £1.7 billion. The Prime Minister was clear that the sudden production of a bill to Britain for payment on the 1 December was unacceptable.

At a meeting of European Finance Ministers on 7 November 2014, the Chancellor secured a permanent change to the regulations governing Member State contribution adjustments to ensure this never happens again. In the future, if any Member State receives an adjustment demand that is excessive, it will have the opportunity to phase payments.

Following intensive and constructive discussions, the government ensured that the British rebate will apply in full, and that it would be paid at the same time as any money owed, not a year in arrears as normal. This means that the government halved the bill, to around £850 million.

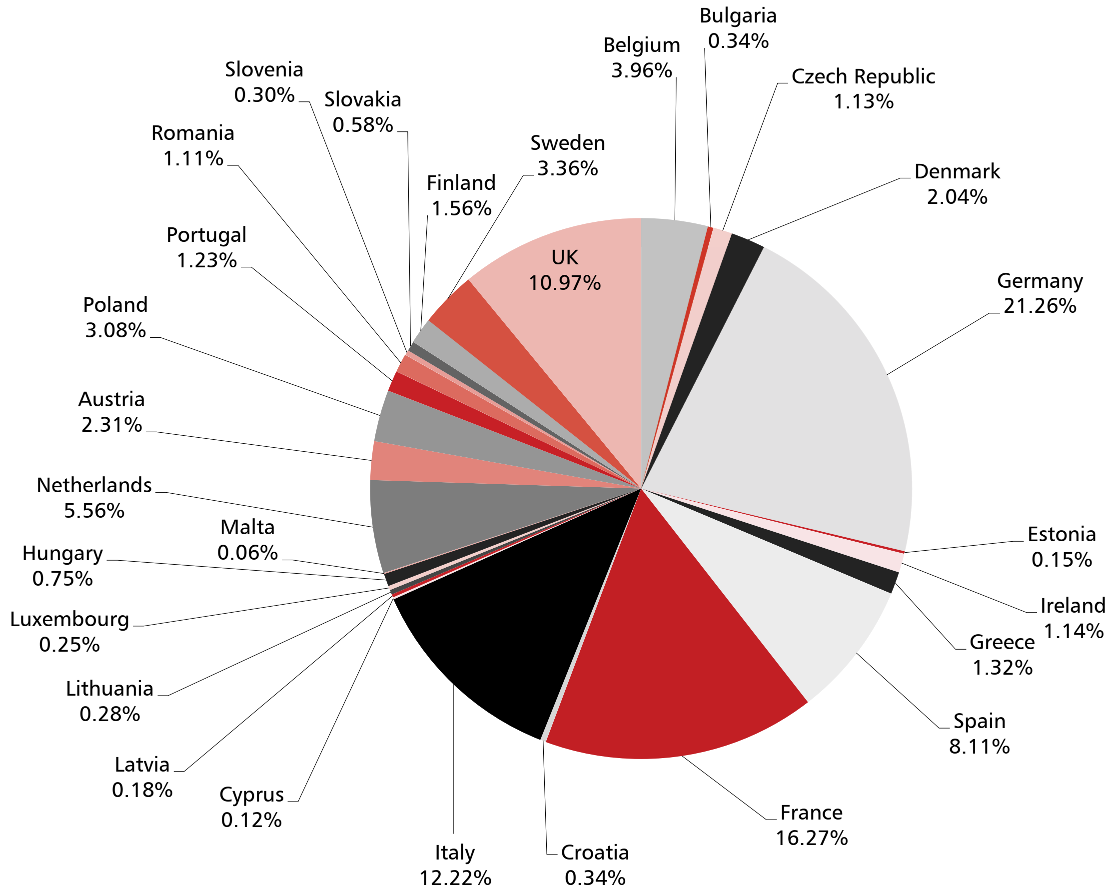
The UK payment will be made in instalments next year, and no fines or interest will be applied. As a result, the UK paid nothing on 1 December 2014.

The total payment of approximately £850 million that the UK will make in 2015 comprises 3 elements: the £1.7 billion, which, as set out in the original publication, itself comprises a gross transfer to the EU of £2.9 billion and a resulting return transfer of £1.2 billion (€1.5 billion); and then the rebate, estimated by the Commission to be worth approximately €1 billion (£850 million)[3].

The payments next year will follow the standard procedure for administering the EU Budget, with net payments incorporating transfers to and from the budget.

[3] The exchange rate used for the figures in Box 2.C is £1 = €1.2633. This is the forecast exchange rate for 31 December 2014, which will be used for converting the UK's share of the EU's consequent surplus and the value of the additional rebate in 2015 (UK's gross payment liability is denominated in sterling).

Chart 2.C: EU Budget contributions 2014 – percentage share after rebates by Member States



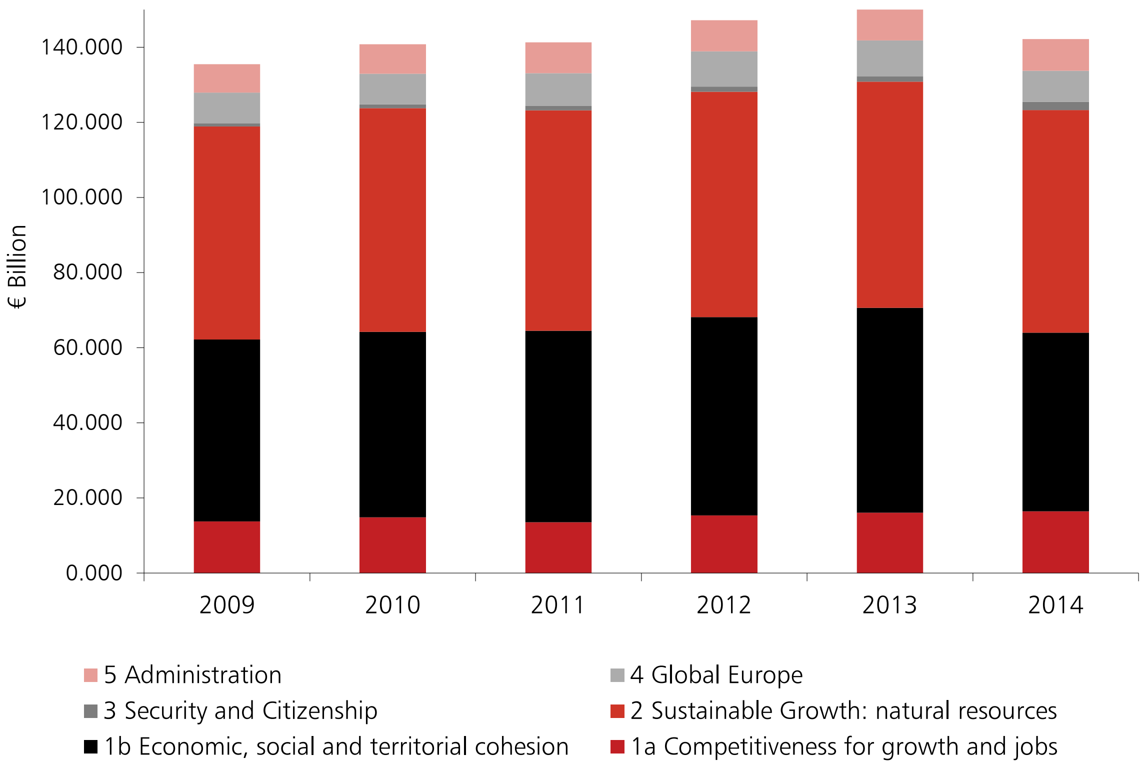
Source: Official Journal of the European Union, 'Definitive adoption of the European Union's general Budget for the financial year 2014'

3 Developments in EU Finances

Expenditure

3.1 Chart 3.A shows the development in EU spending commitments between 2009 and 2014. Over this period, the total level of commitments has increased by €5.69 billion (£4.74 billion), from €136.95 billion (£121.92 billion[1]) in 2009 to €142.64 billion (£118.92 billion) in 2014. Within this, Heading 1 has increased by €1.78 billion (£1.48 billion). Heading 2 has increased by €2.57 billion (£2.14 billion); and Heading 5 has increased by €0.81 billion (£0.68 billion).

Chart 3.A: Developments in EU spending (commitments) 2009-2014 (€ billion)



Source: European Union Commission Budget website: http://ec.europa.eu/budget/biblio/documents/index_en.cfm

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 2009-14.

The UK's net contribution

3.3 Chart 3.B shows how the UK's net contribution to the EU Budget varies from year to year. This volatility results from variations in payments made due to the nature of the Own Resources

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

system; variations in public sector receipts; and consequent fluctuations in the UK's rebate. This is explained in more detail in 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 2008 to 2014. The figures for 2014 are estimates; those for earlier years are outturn. Table C5 gives a more detailed breakdown.

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

£ million

	2008 Outturn	2009 Outturn	2010 Outturn	2011 Outturn	2012 Outturn	2013 Outturn	2014 Estimated Outturn[1]
Gross Payments[2]	12,653	14,129	15,197	15,357	15,746	18,135	19,234
Less: UK rebate	-4,862	-5,392	-3,047	-3,143	-3,110	-3,674	-4,888
Less: Public sector receipts	-4,497	-4,401	-4,768	-4,132	-4,169	-3,996	-4,539
Net contributions to EU Budget[3]	**3,294**	**4,336**	**7,382**	**8,082**	**8,467**	**10,465**	**9,807[4]**

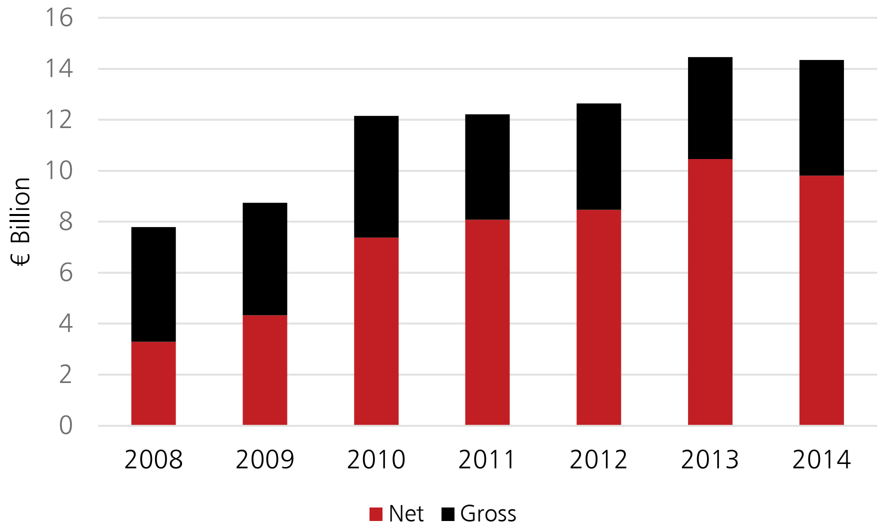
[1] The figures for 2014 are derived from the Office for Budget Responsibility forecast. Those for earlier years are outturn.
[2] Gross payment figures include TOR payments at 75%. The remaining 25% is retained by the UK to cover the costs of administering collection on behalf of the EU.
[3] Due to rounding, totals may not exactly correspond to the sum of individual items.
[4] The 2014 estimated outturn figure is derived from the Office for Budget Responsibility's December 2014 forecast.

Source: Office for Budget Responsibility and HM Treasury

3.5 UK public sector receipts in 2014, 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 £4.5 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 or agencies.

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 2014, these receipts are expected to be around £800 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 2008-2014 (£ billion)



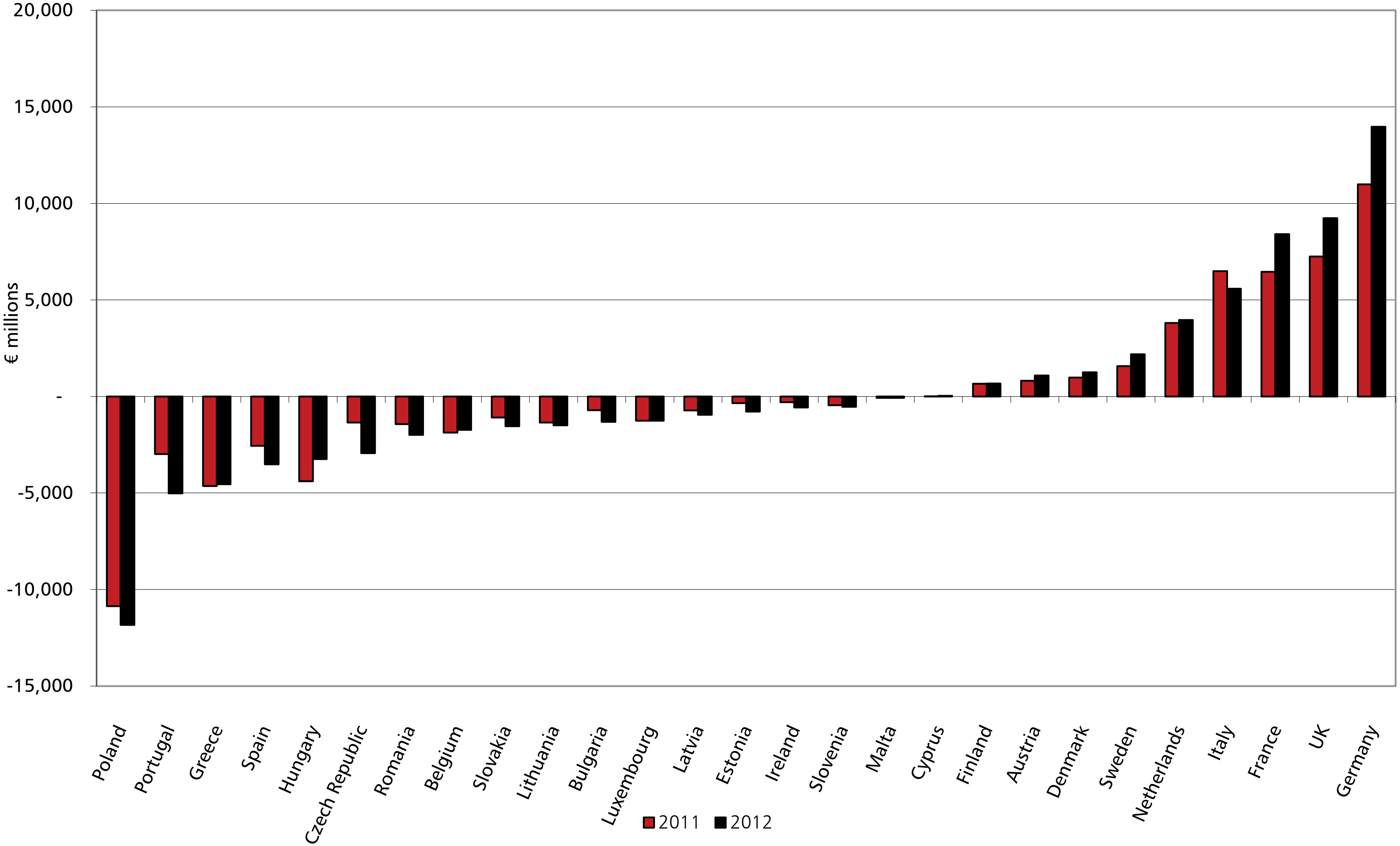
Note: 2014 is an HM Treasury estimate based on the Office for Budget Responsibility forecast

Source: Derived from the Office for Budget Responsibility's forecast

3.7 The UK's 2014 net contribution to the EU Budget is forecast at £9.8 billion; the outturn in 2013 was £10.5 billion.

3.8 Chart 3.C shows how the UK's net position compares with those of the other Member States in 2011 and 2012. In 2012, the UK was 1 of 10 net contributors to the EU Budget.

Chart 3.C: Net Contributions of Member States in 2011 and 2012 (€ million)



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

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 with the EU on a financial year basis between 2008-09 and 2013-14.

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

						£ million
	2008-09 Outturn	**2009-10 Outturn**	**2010-11 Outturn**	**2011-12 Outturn**	**2012-13 Outturn**	**2013-14 Estimated Outturn[3]**
Gross Payments[1]	13,155	13,733	15,593	15,700	16,871	18,208
Less: UK rebate	-5,595	-4,218	-2,678	-3,516	-3,172	-4,128
Less: Public sector receipts	-4,558	-4,788	-3,998	-4,771	-4,022	-3,856
Net contributions to EU Budget[2]	**3,002**	**4,727**	**8,917**	**7,413**	**9,678**	**10,225**
Other attributed costs	0	-69	-43	-163	-82	-79
Net payments to EU institutions (excluding Overseas Aid)	**3,002**	**4,659**	**8,874**	**7,250**	**9,595**	**10,146**

[1] Gross payment figures include Traditional Own Resources payments at 75%. The remaining 25% 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] The 2013-2014 estimated outturn figure is fully consistent with the Office for Budget Responsibility's December 2014 forecast.

Source: Office for Budget Responsibility (for the forecast) and HM Treasury (for the outturn)

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 2014-15 to 2019-20. Tables 3.D (outturn figures) and 3.E (forecasts) provide a more detailed breakdown of UK receipts by major programmes from the EU Budget over the periods 2008-09 to 2013-14 (outturn figures) and 2014-15 to 2019-20 (estimates).

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

						£ million
	2014-15 forecast[4]	**2015-16 forecast**	**2016-17 forecast**	**2017-18 forecast**	**2018-19 forecast**	**2019-20 forecast**
Gross Payments[1]	18,821	17,862	19,228	17,902	18,858	19,857
Less: UK rebate	-4,842	-4,952	-4,444	-5,014	-4,734	-4,989
Less: Public sector receipts	-4,925	-4,525	-4,606	-4,839	-5,217	-5,494
Net contributions to EU Budget[2]	9,054	8,385	10,178	8,049	8,908	9,374
Other attributed costs[3]	0	0	0	0	0	0
Net payments to EU institutions (excluding Overseas Aid)[2]	9,054	8,385	10,178	8,049	8,908	9,374

[1] Gross payment figures include Traditional Own Resources payments at 75%. The remaining 25% 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] These figures relate to the costs of additional receipts for DECC and DEFRA (from the EERP, CAP health check, school fruit, food aid programmes) under the Department Pays Principle.
4 Figures in this table are fully consistent with the Office for Budget Responsibility's December 2014 forecast.

Source: Office for Budget Responsibility forecast

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

						£ million
	2008-09 Outturn	**2009-10 Outturn**	**2010-11 Outturn**	**2011-12 Outturn**	**2012-13 Outturn**	**2013-14 Estimated Outturn**
FEAGA	3,047	2,967	2,541	2,973	2,956	2,602
EAFRD	299	310	362	462	298	638
Social Fund	519	571	687	552	366	249
Regional Development Fund	656	919	383	709	327	275
Other Receipts	37	20	26	74	75	92
Total	**4,558**	**4,788**	**3,998**	**4,771**	**4,022**	**3,856**

Source: Office for Budget Responsibility (for the forecast) and HM Treasury (for the outturn)

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

						£ million
	2014-15 forecast	**2015-16 forecast**	**2016-17 forecast**	**2017-18 forecast**	**2018-19 forecast**	**2019-20 forecast**
FEAGA	3,407	3,096	3,194	3,367	3,654	3,807
EAFRD	707	709	699	729	773	836
Social Fund	325	282	279	291	309	333
Regional Development Fund	381	339	336	351	373	402
Other Receipts	105	99	98	102	108	117
Total	**4,925**	**4,525**	**4,606**	**4,839**	**5,217**	**5,494**

Source: Office for Budget Responsibility (for the forecast) and HM Treasury (for the outturn)

3.11 Payments to the EU Budget are scheduled on a monthly basis, but the Commission can request 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 2013 Autumn Forecast (December 2013) 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 2014 EU Budget year. This proved to be correct. This meant that a total of five twelfths were paid in the first quarter of the 2014 calendar year. As a result, payment of seven twelfths of each of these elements will be made over the remainder of 2014 and these payments will all fall into the 2014-15 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 2014-15 to 2017-18 and also includes, for the first time, estimates for 2018-19 and 2019-20. In the medium term, the size of the UK net contribution is forecast to decrease from £10.2 billion in 2013-14 to £9.1 billion in 2014-15 and £8.4 billion in 2015-16. These forecasts remain subject to usual forecasting uncertainties. The assumption underlying the forecasts for these years can be found in the December 2014 Economic and Fiscal Outlook which is available 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 2012 between the government's figures and those which can be derived from the European Commission's EU Budget 2012 Financial Report.

4 Financial management and anti-fraud issues

4.1 The Commission's annual Fight Against Fraud report details the actions taken by the Commission and the Member States to counter fraud affecting EU funds. The report also highlights 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 report assesses the implementation of the EU Budget and identifies examples of irregular management or expenditure.

4.2 In line with established practice in the statement on European Union Finances, this chapter provides an overview of the ECA report pertaining to the EU Budget 2 years prior to this publication. This is because the ECA release their reports on a given budget year with a 12 month delay, approximately. As such, this chapter concerns the ECA report on the 2012 EU Budget.

European Court of Auditors' annual report on the 2012 EU Budget

4.3 The European Court of Auditors (ECA) is the EU's independent auditor and is responsible for assessing the accounts and payments of EU Institutions. The ECA is required to provide the European Parliament and Council with an annual report on the implementation of the EU Budget.[1] This report assesses: the fairness and accuracy of the EU Budget accounts; and the regularity of the underlying transactions. The report also contains targeted recommendations to address identified errors and weaknesses. The report includes a Statement of Assurance (usually referred to as the 'DAS', from the French '*Déclaration d'Assurance*') which confirms 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.

4.4 The ECA's report also 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.

4.5 The ECA's report on the 2012 EU Budget was published on 5 November 2013. As in previous years, it provided an assessment of each EU Budget area and offered conclusions 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.

ECA's Statement of Assurance

4.6 In the ECA's opinion, the 2012 EU Budget accounts were reliable and gave a fair presentation of the financial position and the results of operations and cash flows for the year.

[1] The European Court of Auditors' annual report on the 2012 EU Budget can be found at:
http://www.eca.europa.eu/Lists/ECADocuments/AR12/AR12_EN.pdf
Note: The European Court of Auditors' annual report on the 2013 EU Budget was published on 5 November 2014.

4.7 The ECA found EU revenue underlying the 2012 accounts to be legal and regular in all material aspects and concluded that commitments in all policy groups were also free from material error.

4.8 However, the ECA found that payments (EU spending) continued to be affected by material error with an estimated error rate of 4.8% for the 2012 EU Budget as a whole, a notable increase from 3.9% for the 2011 EU Budget.

4.9 All individually assessed areas of EU spending were affected by material error with the exception of administrative expenditure. Material error refers to expenditure that has not been made in line with the rules and legislation governing EU Budget funds. Errors are not the same as fraud and do not automatically mean that funds have been wasted. Supervisory and control systems were found to be partially effective in most cases highlighting the need for further improvements.

4.10 In light of these findings, for the nineteenth consecutive year, the ECA granted the legality and regularity of the transactions underlying the EU Budget accounts a qualified DAS.

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

- **Chapter 2 - Revenue:** This covers the revenue, through which the EU finances its budget. For 2012 the ECA concluded that Member States' payments of TOR, VAT and GNI based resources and other revenue were all free from material error and the error rate for transactions tested was found to be nil. The examined supervisory and control systems for VAT based and TOR were found to be effective but the report revealed weaknesses in the Commission's verification of GNI data. The ECA's recommendations for the Commission included:
    - review its control framework for the verification of GNI data
    - encourage Member States to strengthen customs supervision in order to maximise the amounts of TOR collected; and
    - encourage Member States to correctly use A and B accounts and ensure that they are demonstrably complete and accurate
- **Chapter 3 - Agriculture: Market and Direct Support:** This covers assessments of the European Agricultural Guarantee Fund (EAGF), one of the two main instruments of the Common Agricultural Policy (CAP) 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 3.8%. Based on the sample of Member States assessed, the ECA concluded that national management and control systems were partially or not effective. The ECA recommended that the Commission and Member States should increase and expedite efforts to ensure that:
    - the eligibility of land, and permanent pasture in particular, is properly recorded
    - paying agencies take immediate remedial action where their administrative and control systems and/or databases are deficient
    - payments are based on inspection results and on-the-spot checks are of sufficient quality to be relied upon; and
    - the design and quality of the work performed by the directors of paying agencies and the certification bodies provides a reliable assessment of the legality and regularity of underlying transactions

- **Chapter 4 - Rural Development, environment, fisheries and health:** This chapter also covers expenditure on rural development, environment, fisheries and health but also spending on environment and climate action, health and consumer protection. The ECA concluded that payments in this chapter were affected by material error, with the most likely error rate estimated at 7.9%. The report identified shortcomings in the implementation of cross-compliance requirements within the European Agricultural Fund for Rural Development (EAFRD), particularly in relation to the identification and registration of animals. The ECA's recommendations to the Commission included ensuring that:
  - all cases where the ECA detected errors are followed up appropriately; and
  - for CAP, the Commission addresses the weaknesses identified in its conformity audits as well as the ongoing problem of long delays in the conformity procedure
- **Chapter 5 - Regional Policy: energy and transport:** Regional policy accounts for approximately 96% of spending within this chapter and is mostly implemented through the European Regional Development Fund (ERDF) and the Cohesion Fund (CF), with its management shared with Member States. The ECA found that payments for the policy group were materially affected by error, with the most likely error rate estimated at 6.8%. The ECA's recommendations to the Commission included:
  - address weaknesses in 'first level checks' conducted by managing authorities and intermediate bodies for the ERDF and CF; and
  - carry out an assessment of the use of national eligibility rules to identify possible areas for further simplification
- **Chapter 6 - Employment and Social Affairs:** The European Social Fund (ESF) is the main tool for the implementation of employment and social policy and accounted for approximately 97% of expenditure in this policy area for 2012. The ESF funds investments in human capital through training and other employment measures. The ECA concluded that payments were affected by material error, with the most likely error rate estimated at 3.2%. The ECA's recommendations to the Commission included:
  - promote the extensive use of simplified cost options to reduce the risk of error in cost declarations and the administrative burden on beneficiaries; and
  - seek improvements in the work done by audit authorities and the quality and reliability of information provided in ACRs and audit opinions
- **Chapter 7 - External relations, aid and enlargement:** This chapter 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 from their headquarters in Brussels, by EU delegations in recipient countries, or jointly with international organisations. The ECA found that payments were affected by material error, with the most likely error rate estimated at 3.3%. The ECA recommendations for the Commission included:
  - promote better document management by implementing partners and beneficiaries; and
  - take effective steps to enhance the quality of expenditure checks carried out by external auditors

- **Chapter 8 - Research and other internal policies:** This spans a number of areas including education and culture, economic and financial affairs, justice, trade and competition. Expenditure in this area is managed directly by the Commission. The ECA concluded that payments were affected by material error, with the most likely error rate estimated at 3.9%. The ECA recommends that the Commission:
    - further intensify its efforts to address the errors found in interim and final payments and clearings; and
    - reduce delays in the implementation of ex post audits and increase the implementation rate for extrapolation cases
- **Chapter 9 - Administrative and other expenditure:** This covers the administrative and other expenditure of EU institutions and bodies. Expenditure in this area includes human resources (salaries, allowances and pensions), which account for 60% of the spending in this policy group, in addition to expenditure on buildings, equipment, energy, communications and information technology, which accounts 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 concluded that payments were not affected by material error, with the most likely error rate estimated at nil. The ECA recommended 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
- **Chapter 10 - 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 recommended that the European Parliament and Council ensure that authorising officers improve the design, coordination and performance of procurement procedures through appropriate checks and better guidance.

Council recommendation to the European Parliament on Discharge

4.12 On 18 February 2014, the Council welcomed both the ECA's Statement of Assurance on the implementation of the EU Budget for the financial year 2012 and the ECA's analysis of the audit findings and conclusions. The Council again stressed the importance of independent audits carried out at EU level and strongly supported the work of and the audit findings presented by the ECA.

4.13 However, the Council remained concerned 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.

4.14 In its response, the Council:

- called upon the Commission to further strengthen the control systems and to make them more efficient. Also to put more emphasis on measures preventing errors, and on timely interruption and suspension payments, and to target the most risk prone programmes, applying financial corrections and recoveries rigorously, in line with the relevant rules

- encouraged the Commission to provide guidance to Member States with a view to strengthening the efficiency of their administrative and control structures and enhancing the quality of the different levels of controls, particularly the first level checks
- called upon the Commission, in the context of future measures taken to strengthen control systems, to fully respect the need to achieve simplification on the management of EU funds
- urged the Commission to continue improving its control systems while keeping the right balance between costs of controls and achieving the policy objectives
- reiterated the need for appropriate guidance and training to be provided to Member States and to beneficiaries to help them in fulfilling their role in pursuing policy objectives while bringing down the level of errors;
- stressed the importance of simplification of public procurement rules, with particular attention to the simplification of national rules;
- called on the Commission to continue monitoring the evolution of outstanding commitments, and to settle or decommit them in a timely manner and in line with the relevant rules
- invited the Commission to prepare and publish a long term cash flow forecast, projecting future payment requirements, to assist identifying future needs, planning budgetary priorities and ensure that necessary payments can be met from approved annual budgets
- 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; and
- highlighted the importance of the simplification of rules in achieving an unqualified audit opinion

4.15 On 18 February 2013, the Netherlands, Sweden and the UK voted against the Council's recommendation on discharge for the third consecutive year 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 counter-statement calling for progress in key areas to improve the management of EU Budget funds.

European Parliament decision on Discharge

4.16 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 3 April 2014, the European Parliament agreed to discharge the 2012 EU budget. On 16 April the European Parliament adopted discharge of the EU Budget accounts for 2012 and issued their formal resolution.

UK government's response to the ECA

4.17 The ECA report included examples of specific issues identified in individual Member States, including the UK. A copy of the UK's response to the ECA's findings was sent to both Houses of Parliament in January 2014. In all cases. The relevant UK authorities engaged with the Commission and the ECA and, where appropriate, took steps to strengthen national systems and processes. Below is an example of 2 such cases:

Agriculture

Audit finding: Inconsistencies in the measurement of land parcels relating to the European Agricultural Guarantee Fund.

UK Response: Northern Ireland authorities contested the findings and, following further submissions, the number of cases fell from 12 to 6. Further, Northern Ireland highlighted that their methodology of parcel measurement, which was based on guidance documents from the Joint Research Centre and which have been deployed by the Commission, differs from that used by the ECA.

Rural development

Audit finding: Non-respect of eligibility requirements for investment projects.

UK response: The UK was 1 of 10 Member States where examples of this issue were identified. The UK authorities concerned accepted that the necessary procurement requirements were not wholly adhered to in these identified cases and conducted a retrospective exercise to ensure that lessons could be learned and to assess whether the cost of the equipment funded was reasonable.

Fight against Fraud Report 2012

4.18 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 the latest statistics on fraud, and recent measures taken to reduce irregularities and fraud.[2] 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.

4.19 As in previous years, the report summarises and evaluates measures taken by the Commission and Member States to counter fraud and irregularities in relation to EU budget funds. The report also 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. The 2012 report covers:

- Results of irregularities relating to areas where Member States implement the Budget (agricultural policy, cohesion policy and pre-accession funds); 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

[2] The Commission's fight against fraud report can be found at: http://ec.europa.eu/anti_fraud/documents/reports-commission/2012/pif_report_2012_en.pdf

- **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

4.20 The report is accompanied by 5 Commission Staff Working Papers: (i) Implementation of Article 325 TFEU by the Member States in 2012; (ii) Statistical Evaluation of Irregularities reported for 2012; (iii) Follow-up recommendations to the Commission report on the protection of the EU's financial interests - Fight Against Fraud 2011; (iv) Methodology regarding the statistical evaluation of reported irregularities for 2012; and (v) Annual overview with information on the results of the Hercule II programme in 2012.

4.21 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

4.22 In 2012, a total of 1,194 irregularities were reported as fraudulent (suspected and established fraud). This figure represents a marginal reduction from 1,230 in 2011. The estimated financial impact of irregularities reported as fraudulent also decreased from €404m in 2011 (£351m) to €390m in 2012 (£316m). The Commission confirmed that Cohesion policy remains the sector with the highest number of irregularities reported as fraudulent accounting for 54% of the total and 63% of the total amounts involved.

4.23 The report notes that of the irregularities reported as fraudulent in the last 5 years, 5% have been established as fraud.

Other irregularities (not reported as fraudulent)

4.24 In 2012, a total of 12,137 non-fraudulent irregularities were reported, up approximately 6% from 10,974 in 2011. The estimated financial impact of these irregularities showed a significant increase from €1.6 billion (£1.4 billion) in 2011 to €2.9 billion (£2.4 billion) in 2012.

4.25 The report considers the actions taken by the Commission in 2012 to counter fraud, including the reform of the Regulation concerning OLAF's investigations.[3] The report also highlights efforts by Member States to address fraud, including increased monitoring, greater rigour in financial audits and updated guidelines.

4.26 The report's recommendations included for all Member States to:

- quickly designate or establish their Anti-Fraud Coordination Service (AFCOS)
- take the reports analysis and accompanying documents into account when planning checks and controls; and
- adopt and develop checks and controls, in particular, structuring and improving cooperation between managing authorities and anti-fraud bodies as well as improving risk analyses and IT tools

Thirteenth report of the European Anti-Fraud Office (1 January to 31 December 2012)

4.27 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

[3] Regulation (EU, Euratom) No. 883/2013 entered into force on 1 October 2013. This Regulation repealed and replaced Regulation (EU, Euratom) No 1073/1999.

to ensure that EU taxpayers' money is spent appropriately and that the EU is not being deprived of its due revenue.

4.28 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.

4.29 Every year, the OLAF Director publishes a report on the activities of the Office over the previous year. The thirteenth report, issued on 23 May 2013, gave a summary of OLAF's achievements in 2012, supported by statistics and case studies.[4]

4.30 The following statistics were reported for 2012:

- 1,264 items of information were received in 2012 from public and private sources (information from the private sector accounted for 70% of the total received)
- 718 new cases were opened in 2012, of which 431 were investigations while 287 were opened as cases for which OLAF took a coordination role. The high number of new cases for 2012 is partly attributable to an exceptional number of cases opened as a result of OLAF's reorganisation;
- 465 cases were closed during the year, 100 with recommendations for further action and 365 with no follow-up recommendations
- the duration of the investigation and coordination cases decreased by almost 6 months to an average of 22.6 months
- structural funds accounted for the highest number of investigations; and
- €94.5 million (£76.6 million) was recovered in total as a result of OLAF's investigations with the highest amounts recorded for customs fraud (€34 million, or £27.6 million), Structural Funds (€33.4 million, or £27.1 million) and Agricultural Funds (€14.3 million, or £11.6 million)

4.31 In the policy field, OLAF was actively engaged in a number of projects, including:

- overall EU strategy against the illicit tobacco trade
- negotiations for the new Hercule and Pericles programmes under the 2014-2020 Multi-annual Financial Framework; and
- the proposal to establish a European Public Prosecutors' Office

4.32 In 2012, OLAF operated on an administrative budget of €57.4 million (£46.5 million). The new organisational structure focused on 2 core tasks: investigation; and anti-fraud policy. The number of resources dedicated to these core tasks has increased significantly through internal redistribution, with more than two thirds of staff working on fraud investigations or supporting them. Of the 435 OLAF personnel in 2012, 345 were dedicated to the fight against fraud.

[4] OLAF's thirteenth activity report can be found at: http://ec.europa.eu/anti_fraud/documents/reports-olaf/2013/olaf_report_2013_en.pdf

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 additional expenditure in any given Budget year of up to €471 million (2011 prices). Any portion of the Flexibility Instrument unused at the end of 1 year may be carried over for up to 2 subsequent years, but the Flexibility Instrument should not, as a rule, be used to cover the same needs for 2 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.

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 3 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 an MFF.

Own Resources

A.7 The Own Resources Decision lays down 4 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 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% 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% is then applied to this base. The base is, where necessary, then capped at 0.5% of the Member State's GNI; and
    (5) a call-up rate (currently a maximum of 0.3%) 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 EU Budget and the revenue from the other 3 resources, subject to the overall Own Resources ceiling

A.7.1 The first 2 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 2008-14 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 2014 euro figures have been converted into sterling using the sterling/euro exchange rate on 31 December 2013, namely £1=€1.199472 (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 EU structural funds are intended to resolve structural economic and social problems. For the 2014-2020 programming period, the Common Provisions Regulation sets out the guiding principles for administering the funds. At present, these funds are:

- the European Regional Development Fund (ERDF), which promotes economic and social cohesion within the EU 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 Fund for Rural Development (EAFRD), which contributes to the structural reform of the agriculture sector and to the development of rural areas
- the European Maritime and Fisheries Fund (EMFF), the specific fund for the structural reform of the fisheries sector; and
- the Cohesion Fund (CF), which supports Member States with GDP that is less than 90% of the European average, financing environmental and trans-European transport projects

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% 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 2014 relates to UK payments and receipts in 2013

A.10.1 There are 2 adjustments made to the original calculation of the UK rebate - "UK advantage" and "TOR windfall gains" – to ensure that the UK is not affected by changes to the EU financing system since 1985. These changes neutralise for the UK all changes to own resources decisions since 1985, resulting in a total UK contribution to the EU budget as if the pre-1985 financing system were still in force.

[1] 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
The annual average rate for 2013 is £1 =€1.177910

A.10.2 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 2007.

A.10.3 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.

A.10.4 Corrections may be made for up to 3 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 2013 will take place in 2017.

A.10.5 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

Explanation of the difference between the government's cash flow outturn for the UK's net contribution for 2012 and the figures in the European Commission's EU Budget 2012 Financial Report

B.1 As set out in chapter 3, paragraph 3.14, there is a difference between the UK government's figures for the cash flow outturn for the UK's net contribution for 2012 and the figures in the European Commission's EU Budget 2012 Financial Report. An explanation for this difference is set out in tables B.1 and B.2.

B.2 When converted at the average exchange rate for 2012 of £1= €1.233211, the figures on cash flow outturn for the UK's net contribution for 2012 in the European Commission's EU Budget 2012 Financial Report break down as set out in table B.1.

Table B.1: Cash flow outturn for the UK's net contribution for 2012 in the European Commission's EU Budget 2012 Financial Report

	(€ million)	(£ million)
UK gross contribution before rebate	19,981.1	16,202.5
UK rebate	-3,803.6	-3,084.3
UK receipts	-6,933.9	-5,622.6
UK net contribution	**9,243.6**	**7,495.6**

Source: Derived from European Commission's EU Budget 2011 Financial Report

B.3 The government's figure for the UK's net contribution in 2012 is £8,467 million.

B.4 A number of factors contribute to the difference between the 2 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 2012
- Amending Budget No. 6/2011being adopted very near to the end of 2011 meant that associated changes were not implemented until 2012. The result of which leads to the government's figures for 2012 being some £132 million lower than if the Amending Budget changes had been implemented in 2011
- Amending Budgets 5/2012 and 6/2012 being adopted very near the end of 2012 meant that associated changes were not implemented until 2013. The result of which leads to the government's figures being some £438 million lower than if the Amending Budget changes had been implemented in 2012; 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 £53 million of Structural Funds payments to the UK in 2013 may have been in respect of the 2012 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 2012 with the figures in the European Commission's EU Budget 2012 Financial Report

	(£ million)
UK government cash-flow outturn for 2012	8,467
Private sector receipts	-1,500
Late implementation, in January 2012, of Amending Budget No. 6/2011	132
Late implementation, in January 2013, of Amending Budgets Nos. 5/2012 and 6/2012	438
EU receipts paid to the UK in 2012 which may have been from the 2011 EU Budget	95
EU receipts paid to the UK in 2013 which may have been from the 2012 EU Budget	-100
UK cash-flow figure adjusted to reflect main differences compared to European Commission's figure	**7,532**
European Commission figure for 2011 outturn	**7,496**
Net difference due to other factors (such as exchange rate)	**36**

Source: Derived from European Commission's EU Budget 2012 Financial Report
Derived from Office for Budget Responsibility Forecast

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 2009-2014 (€ million)

Appropriations	**Commitments**						**Payments**					
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
1 Smart and Inclusive Growth	62,202	64,250	64,501	68,141	70,831	63,986	45,205	48,800	53,994	60,287	69,127	65,300
1a Competitiveness for Growth and Jobs	13,775	14,863	13,521	15,389	15,723	16,484	10,318	11,339	11,604	12,064	12,778	11,863
1b Economic, social and territorial cohesion	48,427	49,387	50,984	52,753	55,108	47,502	34,887	37,461	42,390	48,223	56,350	53,437
2 Sustainable Growth: natural resources	56,697	59,499	58,659	59,850	59,855	59,191	50,276	57,020	55,794	58,045	57,814	56,444
3 Security and Citizenship	2,152	1,754	2,098	2,753	2,362	2,172	2021	1,440	1,713	2,183	1,894	1,666
4 Global Europe	8,104	8,141	8,759	9,404	9,341	8,325	8,100	7,788	7,053	6,966	6,732	6,841
5 Administration	7,597	7,908	8,173	8,280	8,418	8,405	7,600	7,907	8,172	8,278	8,418	8,405
6 Compensations	209	0	0	0	0	0	209	0	0	0	0	0
TOTAL	136,951	141,552	142,194	148,428	152,091	142,690	113,410	122,955	126,727	135,758	144,450	139,034

Notes:
1. 2009-13 includes all agreed Amending Budgets. 2014 figures are included as per the final agreed 2014 EU Budget.
2. Because of rounding the columns totals do not necessarily equal the sum of the individual items.

Source: Figures for 2007 to 2012 are taken from the European Commission's EU Budget reports
Figures for 2013 are taken from Amending Budget 9/2013 in the Official Journal of the European Union 'Definitive adoption of Amending Budget No 9 of the European Union for the financial year 2013'
Figures for 2014 are taken from Council documents
European Commission Budget website: http://eur-lex.europa.eu/Budget/www/index-en.htm

Table C.2: Expenditure on the EU Budget Commitments and Payments by Heading in years 2009-2014 (£ million)

Appropriations	Commitments						Payments					
	2009	2010	2011	2012	2013	2014	2009	2010	2011	2012	2013	2014
1 Smart and Inclusive Growth	55,375	55,093	55,967	55,255	60,133	53,345	40,243	41,845	46,850	48,886	58,686	54,441
1a Competitiveness for Growth and Jobs	12,263	12,745	11,732	12,479	13,348	13,743	9,186	9,723	10,069	9,783	10,848	9,890
1b Economic, social and territorial cohesion	43,112	42,348	44,238	42,777	46,785	39,602	31,058	32,122	36,781	39,104	47,839	44,550
2 Sustainable Growth: natural resources	50,474	51,019	50,897	48,532	50,815	49,348	44,758	48,894	48,412	47,068	49,082	47,057
3 Security and Citizenship	1,916	1,504	1,820	2,232	2,005	1,811	1,799	1,235	1,486	1,770	1,608	1,389
4 Global Europe	7,214	6,981	7,600	7,626	7,930	6,941	7,211	6,678	6,120	5,649	5,715	5,703
5 Administration	6,764	6,781	7,092	6,714	7,147	7,007	6,766	6,780	7,091	6,713	7,147	7,007
6 Compensations	186	0	0	0	0	0	186	0	0	0	0	0
TOTAL	121,919	121,378	123,379	120,359	129,119	118,919	100,962	105,432	109,959	110,085	122,632	115,913

Notes:
1. 2009-13 includes all agreed Amending Budgets. 2014 figures are included as per the final agreed 2014 EU Budget.
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)

	Sugar Levies							Custom Duties							VAT-based contributions						
	2008	2009	2010	2011	2012	2013	2014	2008	2009	2010	2011	2012	2013	2014	2008	2009	2010	2011	2012	2013	2014
Belgium	61	6	6	7	7	9	7	1,759	1,417	1,483	1,574	1,617	1,351	1,585	769	601	608	694	681	706	767
Bulgaria	23	0	0	0	0	0	0	63	53	42	49	51	54	54	81	76	61	70	74	84	89
Czech Republic	12	3	3	4	3	8	3	195	164	186	217	217	164	173	345	265	248	282	267	283	288
Denmark	50	3	3	3	3	5	3	294	280	304	324	329	288	296	537	448	352	403	419	440	480
Germany	323	27	26	27	26	48	26	3,014	2,919	3,038	3,429	3,407	3,203	3,387	3,738	2,017	1,837	1,890	1,973	2,083	4,042
Estonia	10	0	0	0	0	0	0	24	24	17	22	22	22	24	38	31	25	29	32	35	38
Ireland	1	0	0	0	0	0	0	200	177	186	200	198	211	213	401	308	250	246	247	281	287
Greece	7	1	1	1	1	1	1	224	190	214	140	133	111	115	615	512	462	372	356	301	315
Spain	28	6	5	5	5	6	5	1,161	996	1,130	1,165	1,115	988	1,031	2,587	2,290	1,257	2,452	1,936	1,887	2,063
France	365	36	31	38	31	41	31	1,204	1,227	1,376	1,528	1,669	1,376	1,469	4,714	3,967	3,278	3,883	3,863	4,041	4,331
Croatia	0	0	0	0	0	0	2	0	0	0	0	0	11	36	0	0	0	0	0	45	95
Italy	119	5	4	4	5	8	5	1,530	1,500	1,664	1,738	1,669	1,412	1,499	4,310	2,461	2,175	2,530	2,736	2,635	3,028
Cyprus	9	3	0	0	0	0	0	36	31	26	25	20	15	16	40	37	33	36	33	33	33
Latvia	2	1	0	0	0	0	0	27	18	17	23	23	21	22	55	37	23	25	31	41	41
Lithuania	9	2	1	1	1	5	1	51	38	38	44	46	50	54	79	61	42	42	50	63	66
Luxembourg	1	0	0	0	0	0	0	14	11	13	14	14	11	12	73	63	50	62	61	62	74
Hungary	9	1	2	2	2	2	2	104	92	91	99	100	89	95	242	170	154	164	144	163	188
Malta	2	0	0	0	0	0	0	11	9	10	10	10	9	10	14	12	11	12	12	15	15
Netherlands	271	7	7	7	7	13	7	1,762	1,714	1,742	1,928	1,880	1,794	1,939	993	357	257	341	319	321	870
Austria	16	3	3	3	3	3	3	185	154	164	186	197	161	165	425	298	310	330	339	366	484
Poland	123	3	13	14	13	31	13	328	297	305	339	353	353	369	864	636	685	710	679	721	837
Portugal	15	0	0	0	0	0	0	119	117	134	135	121	114	121	392	341	354	381	316	320	339
Romania	42	1	1	1	1	5	1	158	123	100	109	109	100	106	277	246	175	206	220	237	263
Slovenia	1	0	0	0	0	0	0	89	69	67	74	73	58	66	92	81	67	73	69	72	76
Slovakia	6	2	1	1	1	4	1	105	82	106	116	121	82	86	123	123	86	97	108	110	128
Finland	5	1	1	1	1	3	1	161	114	126	152	149	125	137	417	372	307	354	375	403	428
Sweden	31	2	5	3	3	1	3	424	368	429	464	484	444	485	500	198	186	206	211	246	649
United Kingdom	444	10	9	10	10	10	10	2,056	2,222	2,504	2,542	2,573	2,548	2,624	-3,312	-3,533	-934	-1,083	-1,005	-1,802	-2,433
Total	1,985	124	123	132	123	202	125	15,297	14,404	15,514	16,646	16,701	15,164	16,185	19,408	12,475	12,356	14,805	14,546	14,189	17,882

EU Budget Own Resources (€ million) – continued

	GNI-based contributions							TOTALS						
	2008	2009	2010	2011	2012	2013	2014	2008	2009	2010	2011	2012	2013	2014
Belgium	2,041	2,433	2,686	2,652	2,926	3,198	2,953	4,631	4,457	4,783	4,927	5,231	5,264	5,311
Bulgaria	196	243	249	277	293	336	306	364	372	352	395	419	475	450
Czech Republic	844	870	1,061	1,180	1,070	1,152	1,055	1,396	1,302	1,498	1,682	1,557	1,607	1,520
Denmark	1,421	1,617	1,722	1,717	1,933	2,153	1,952	2,301	2,347	2,381	2,448	2,684	2,886	2,732
Germany	15,140	17,284	18,872	17,781	20,365	23,849	21,019	22,215	22,246	23,773	23,127	25,770	29,183	28,473
Estonia	89	95	100	108	121	154	136	161	150	142	159	175	211	198
Ireland	974	958	959	893	956	1,234	1,023	1,577	1,442	1,394	1,339	1,401	1,725	1,524
Greece	1,482	1,595	1,633	1,390	1,523	1,481	1,341	2,328	2,299	2,310	1,903	2,013	1,894	1,771
Spain	6,190	7,285	7,681	7,424	7,901	8,416	7,771	9,966	10,577	10,073	11,046	10,956	11,296	10,870
France	11,742	13,767	14,895	14,168	15,846	17,685	15,965	18,025	18,997	19,581	19,617	21,409	23,144	21,796
Croatia	0	0	0	0	0	181	324	0	0	0	0	0	237	456
Italy	9,186	10,502	11,490	11,807	12,026	13,004	11,840	15,144	14,469	15,332	16,078	16,436	17,058	16,371
Cyprus	95	119	125	125	131	136	114	180	191	184	185	185	184	164
Latvia	132	149	135	135	160	206	184	216	204	175	182	215	267	248
Lithuania	190	205	188	216	238	284	261	329	306	269	302	335	402	381
Luxembourg	172	197	199	217	237	246	252	259	270	261	293	312	320	338
Hungary	592	595	708	673	670	751	722	947	858	955	937	916	1,005	1,006
Malta	34	39	41	44	45	62	50	60	61	61	66	67	86	75
Netherlands	3,643	3,368	3,607	3,592	3,958	5,075	4,637	6,669	5,446	5,613	5,869	6,164	7,203	7,453
Austria	1,568	1,892	2,151	2,169	2,351	2,639	2,436	2,195	2,347	2,627	2,689	2,891	3,169	3,089
Poland	2,158	2,052	2,654	2,518	2,677	3,083	2,911	3,473	2,988	3,657	3,580	3,721	4,188	4,131
Portugal	940	1,089	1,360	1,219	1,226	1,347	1,194	1,466	1,548	1,848	1,734	1,664	1,782	1,654
Romania	741	911	868	910	1,051	1,122	1,114	1,218	1,282	1,143	1,226	1,381	1,464	1,485
Slovenia	227	259	253	254	265	293	258	408	409	387	401	407	423	400
Slovakia	361	468	454	479	535	599	561	595	675	647	694	765	794	776
Finland	1,127	1,217	1,268	1,449	1,526	1,615	1,527	1,710	1,704	1,702	1,956	2,051	2,145	2,093
Sweden	2,269	1,897	2,623	2,661	2,925	3,664	3,362	3,223	2,465	3,243	3,334	3,623	4,352	4,499
United Kingdom	10,925	10,889	13,080	12,356	14,331	16,230	14,494	10,114	9,588	14,659	13,825	15,908	16,987	14,694
Total	**74,479**	**81,993**	**91,060**	**88,413**	**97,284**	**110,195**	**99,767**	**111,169**	**108,996**	**119,052**	**119,995**	**128,655**	**139,749**	**133,960**

Notes:

1. Miscellaneous items of revenue and carry forwards of surpluses and deficits from previous years account for the differences between total EU 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% 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 2008 to 2013 are taken from the European Commission's EU Budget reports: the latest edition EU Budget 2013 Financial Report was published in September 2014.
Figures for 2014 are taken from the 2014 Adopted Budget in the Official Journal of the European Union, 'Definitive adoption of the European Union's general Budget for the financial year 2014'

Table C.4: United Kingdom contributions to, rebate, and public sector receipts from the EU Budget

	€ million							£ million						
	2008	2009	2010	2011	2012	2013	2014	2008	2009	2010	2011	2012	2013	2014
GROSS CONTRIBUTIONS														
Sugar levies	439	225	10	9	13	11	11	349	200	8	8	10	9	9
Customs Duties	2,031	2,024	2,503	2,554	2,703	2,557	2,689	1,615	1,802	2,146	2,216	2,192	2,171	2,242
VAT –based contributions	2,835	1,947	2,534	2,505	2,811	2,761	2,859	2,254	1,733	2,172	2,174	2,279	2,344	2,383
GNI-based contributions	10,845	11,986	12,465	12,588	14,012	15,899	15,495	8,624	10,670	10,689	10,922	11,362	13,497	12,918
VAT & GNI adjustments	-238	-311	212	42	-121	134	2,018	-189	-277	181	36	-98	114	1,682
United Kingdom rebate	-6,114	-6,057	-3,553	-3,623	-3,835	-4,328	-5,863	-4,862	-5,392	-3,047	-3,143	-3,110	-3,674	-4,888
Total Contributions	9,798	9,814	14,169	14,076	15,583	17,034	17,208	7,791	8,737	12,150	12,214	12,636	14,461	14,346
PUBLIC SECTOR RECEIPTS														
FEAGA	3,099	3,269	3,393	3,073	3,395	3,236	3,743	2,465	2,910	2,910	2,667	2,753	2,747	3,121
EAFRD	523	242	512	483	359	729	843	416	215	439	419	291	619	703
European Regional Development Fund	1,221	717	884	698	540	350	404	971	639	758	605	438	297	337
European Social Fund	765	684	751	448	721	290	336	608	609	644	389	585	246	280
Other Receipts	47	31	21	60	126	102	118	37	28	18	52	102	86	98
Total Receipts	5,655	4,943	5,560	4,762	5,141	4,707	5,445	4,497	4,401	4,768	4,132	4,169	3,996	4,539
Net Contributions	4,143	4,871	8,609	9,315	10,422	12,327	11,764	3,294	4,336	7,382	8,082	8,467	10,465	9,807

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 2014 are based on the Office of Budget Responsibility Forecast and HM Treasury calculation. Those for earlier years are outturn.
5. The VAT and GNI adjustment figure shown in 2014 includes the £1.7 billion referred to in box 2C. This is consistent with the approach taken by the OBR at the Autumn Statement, where they accrued £1.7 billion in 2014/15 and the consequent repayment from the £0.8 billion rebate in 2015/16. This does not reflect the actual timing of payments, as the UK will pay none of the surcharge in 2014. The cash position is also made clear by the OBR in paragraph 4.138 and Table 4.34 of their December 2014 Economic and Fiscal Outlook.
6. 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
- 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 EU Budget includes a number of separate funds, including the European Agricultural Guarantee Fund (EAGF), 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 EAGF.

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

[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.

to approved programmes, keeping accurate information on these payments and guaranteeing 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.

Timing of expenditure and the related EU funding

D.20 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.21 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.22 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.23 This section of the document covers the expenditure on EU funded schemes between 2010-11 and 2013-14.

D.24 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.25 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.26 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.27 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.28 The Expenditure Statement (table D.1) shows gross expenditure on EU-supported schemes from 2010-11 to 2013-14. After allowing for foreign exchange variations and adjustments to claims, the amount reimbursable by the EU was £4.3 billion in 2010-11, £4.7 billion in 2011-12, £4.2 billion in 2012-13, and £4.4 billion in 2013-14, the balance being met by the UK Exchequer.

D.29 A breakdown of expenditure by scheme is provided on in tables D.3 to D.6.

D.30 In recognition of likely future funding adjustments, managing authorities made new provisions totalling just £2 million in 2013-14, against claims for reimbursement from the EU. After allowing for the use of provisions following the crystallisation of adjustments, total provisions at 31 March 2014 amounted to £100 million, over £78 million less than the corresponding figure at the end of the 2010-11 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 2011, 2012, 2013 and 2014 (prior years restated[3])

	2010-11	2011-12	2012-13	2013-14*
	£000	£000	£000	£000
Gross expenditure on EU supported projects	4,397,505	4,773,977	4,216,794	4,341,718
Provisions created in year	-75,006	-92,647	-34,850	-1,832
Provisions released in year	19,856	22,817	10,495	60,452
Realised forex gain/(loss)	-35,739	-23,617	114,930	2,328
Unrealised forex gain/(loss)	2,779	51,182	-102,488	-15,757
Withdrawn from EU claim	-49,743	-18,063	-35,841	-8,036
Net expenditure reimbursable by the EU	**4,259,652**	**4,713,649**	**4,169,040**	**4,378,93[illegible]**

[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.

*2013-14 balances include the latest available information. Some managing authority returns are based on un-audited annual accounts.

Table D.2: Statement of Assets and Liabilities as at 31 March 2011, 2012, 2013 and 2014 (prior years restated)

	2010-11	2011-12	2012-13	2013-14*
	£000	£000	£000	£000
Assets				
Advances to beneficiaries	219,642	25,594	17,340	26,143
EU funds receivable	1,931,886	1,763,336	1,763,235	2,253,276
Other assets	1,798	254,299	207,990	258,436
	2,153,326	2,043,229	1,988,565	2,537,855
Liabilities				
EU funds paid on account	-1,938,419	-1,860,340	-997,802	-686,388
Amounts payable to beneficiaries	-140,863	-183,401	-186,053	-166,953
Repayable to EU	-3,525	-2,697	-238,694	-543,684
Provision for disallowances	-177,886	-212,390	-214,681	-100,155
Other liabilities	-24,607	-66,734	285	-517
	-2,285,300	-2,325,562	-1,636,945	-1,497,697
Net Assets / (Liabilities)	-131,974	-282,333	351,620	1,040,158

*2013-14 balances include the latest available information. Some managing authority returns are based on un-audited annual accounts.

Accounting policies

Basis of preparation

D.31 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.32 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.33 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.34 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 2010-11

	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)	-17,877	-7,193	-6,906	-984	**-32,960**
Total withdrawn from EU claim	-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.4: 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	-90,049	-1,696	0	-902	-92,647
Total disallowances released	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.5: Analysis of Net Expenditure by EU Scheme 2012-13 (restated)

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
Gross expenditure in the United Kingdom	3,234,417	321,054	604,264	57,059	4,216,794
Total disallowances provided for (restated)	-34,616	0	0	-234	-34,850
Total disallowances released (restated)	10,427	0	0	68	10,495
Total foreign exchange gains/(losses) (restated)	10,667	4,849	-3,413	339	12,442
Total withdrawn from EU claim (restated)	-17	0	-34,256	-1,568	-35,841
Net expenditure reimbursable by EU	3,220,878	325,903	566,595	55,664	4,169,040

Table D.6: Analysis of Net Expenditure by EU Scheme 2013-14*

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
Gross expenditure in the United Kingdom	3,356,609	347,699	585,703	51,770	**4,341,781**
Total disallowances provided for	-1,190	0	0	-642	**-1832**
Total disallowances released	59,686	0	0	766	**60,452**
Total foreign exchange gains/(losses)	2,120	-2,059	-15,061	1,571	-13,429
Total withdrawn from EU claim	0	0	-7,012	-1,024	**-8036**
Net expenditure reimbursable by EU	**3,417,225**	**345,640**	**563,630**	**52,441**	**4,378,936**

*2013-14 balances include the latest available information. Some managing authority returns are based on un-audited annual accounts

Provisions for future financial corrections (disallowances)

D.35 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.36 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%, 5%, or 10% 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.37 As demonstrated by the data below, the vast majority of provisions in 2013-14 related to Agricultural Policy Funding. The total provisions for disallowances created in-year have gone down in 2013-14.

Table D.7: 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.8: 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.9: Provisions for future financial corrections 2012-13 (restated)

	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

Table D.10: Provisions for future financial corrections 2013-14*

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
As at 1 April 2013	-196,819	0	-15,624	-2,238	-214,681
Created during the year	-1,190	0	0	-642	-1,832
Released in year	23,347	0	0	766	24,113
Utilised	78,707	0	13,304	234	92,245
As at 31 March 2014	-95,955	0	-2,320	-1,880	-100,155

Research programme grant receipts

D.38 The Framework Programme for Research and Innovation (currently Horizon 2020) is the EU's primary mechanism for supporting transnational collaborative research and technological development. The current programme runs from 2014-2020 with an overall budget of €77.0 billion (£65.37 billion) (excluding the Euratom programme).

D.39 The UK government does not manage any of the Horizon 2020 funding, which is awarded directly to programme participants.

D.40 Horizon 2020 activities are split into 3 main areas: excellent science, industrial leadership and societal challenges.

D.41 The Commission's November 2014 update on signed grant agreement data shows that UK organisations overall have been awarded a maximum of €6.9 billion (£5.8 billion), which accounts for 15.5% of the EU funding so far awarded under the previous Framework Programme, FP7. These receipts are not included in the above tables, which provide data on public sector receipts only.

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This document can be downloaded from www.gov.uk

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