HM Treasury

European Union Finances 2016:

statement on the 2016 EU Budget and measures to counter fraud and financial mismanagement

Cm 9400

February 2017

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

February 2017

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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 36th in the series and describes the EU Budget for 2016. It then sets out details, including some forecasts, of the United Kingdom's gross and net contributions to the EU Budget over the calendar years 2010 to 2016 and over the financial years 2010-11 to 2021-22. Details of recent developments in EU financial management and the fight against fraud affecting EU funds are also provided, as is a summary of the UK's strategy for using EU funds and minimising disallowances.

1.3 Since the publication of the previous statement on EU finances, the people of the UK have voted to leave the EU. This statement has been prepared on the basis of the UK's current membership of the EU. It makes no assumptions or statements about the UK's departure from the EU, any future relationship the UK might have with the EU nor any financial implications of the UK leaving the EU.

2 Expenditure

2.1 The EU Annual Budget is negotiated beneath the ceilings set in the Multiannual Financial Framework (MFF). The current MFF covers the period 2014-20. It was agreed in 2013 and achieved a real terms cut in the payment ceilings for the first time, as well as confirming that the UK's rebate would remain. The MFF for 2014-20 set the ceilings for each Annual Budget. The 2016 commitment appropriations ceiling was €154.7 billion (with an additional €0.5 billion available for growth and employment due to unused commitments from 2014) and the payment appropriations ceiling was €144.7 billion[1]. Further information explaining the difference between payments and commitments appropriations can be found in the glossary.

The 2016 EU Budget

2.2 The EU financial year runs from 1 January to 31 December. The 2016 EU Budget for commitment and payment appropriations was agreed under the Luxembourg Presidency of the EU[2] in the second half of 2015[3]. Negotiations began in May 2015, when the Commission proposed a draft EU Budget for 2016. This proposed total commitment appropriations of €153.5 billion (£112.7 billion)[4] and payments appropriations of €143.5 billion[5] (£105.3 billion) in EU spending (nominal figures). The Commission amended its proposal twice; first in June 2015 and then in October 2015. This resulted in a draft EU budget of €154.9 billion (£113.7 billion) in commitment appropriations and €144.5 billion (£106.0 billion)[6] in payments appropriations.

2.3 The Council adopted its position in September 2015, proposing to reduce the Commission's proposal to €153.3 billion (£112.5 billion) in commitment appropriations and €142.1 billion[7] (£104.3 billion) in payment appropriations. In October 2015, the European Parliament provided its position, which would have set the level of EU spending in 2016 to €157.4 billion (£115.5 billion) in commitment appropriations and €146.5 billion[8] (£107.5 billion) in payment appropriations.

2.4 Following a process of conciliation between the Council and European Parliament, the 2016 EU Budget was formally agreed. The adopted 2016 EU Budget provides for commitment appropriations of €155.0 billion (£113.8 billion) and payment appropriations of €143.9 billion[9]

[1] Draft general budget of the European Union for the financial year 2016: http://eur-lex.europa.eu/budget/data/DB/2016/en/SEC00.pdf

[2] Council decision determining the order in which the office of President of the Council shall be held: http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32007D0005

[3] EU budget for 2016 adopted: http://ec.europa.eu/budget/news/article_en.cfm?id=201511251641

[4] 2016: £1 = €1.362491. This is the 31 December 2015 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 2016.

[5] Commission proposes draft EU budget 2016: http://europa.eu/rapid/press-release_IP-15-5046_en.htm; Draft general budget of the European Union for the financial year 2016: http://eur-lex.europa.eu/budget/data/DB/2016/en/GenRev.pdf

[6] Amending letter no.2 to the draft general budget 2016: http://ec.europa.eu/budget/library/biblio/documents/2016/AL/com513final-en-al2-2016-explanatory-memorandum_en.pdf

[7] EU Budget 2016: Council calls for realism: http://www.consilium.europa.eu/en/press/press-releases/2015/10/19-eu-budget-call-for-realism/; Draft general budget of the European Union for the financial year 2016: Council position of 4 September 2015: http://data.consilium.europa.eu/doc/document/ST-11706-2015-INIT/en/pdf

[8] Press release: Conciliation to start on 2016 EU budget: http://www.consilium.europa.eu/en/press/press-releases/2015/10/28-eu-budget-conciliation/; European Parliament resolution of 28 October 2015 on the Council position on the draft general budget of the European Union for the financial year 2016: http://www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P8-TA-2015-0376

[9] EU budget for 2016 adopted: http://ec.europa.eu/budget/news/article_en.cfm?id=201511251641; Definitive adoption of the European Union's general budget for the financial year 2016: http://publications.europa.eu/resource/cellar/d8e65e5d-dac0-11e5-8fea-01aa75ed71a1.0006.01/DOC_1

(£105.6 billion), the latter being equivalent to around 1.0% of EU Gross National Income (GNI). The payment appropriations for each of the main EU Budget headings are shown in Table 2.A: 2016 EU Budget.

2.5 Throughout the negotiations, the UK worked with other member states to ensure budgetary restraint. The UK voted for the adopted 2016 EU Budget.

2.6 Table 2.A also shows the various stages of the negotiations during 2015. 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 expenditure and revenue changes to the adopted EU Budget during the year of implementation – €7.2 billion of payment appropriations were ultimately deducted from the adopted 2016 EU Budget.

2.8 This left a final agreed 2016 EU Budget of €155.3 billion (£114.0 billion) in commitment appropriations and €136.6 billion[10] (£100.3 billion) in payment appropriations. Further details on budget amendments and the final agreed 2016 EU Budget can be found in Box 2.A.

Box 2.A: Budget Amendments and the Final Agreed 2016 EU Budget

The final agreed 2016 EU Budget of €136.6 billion in payments is well within the 2016 payments ceiling agreed in the 2013 MFF deal of €144.7 billion. It represents a cash and real terms cut to the 2013 EU Budget, in the last year of the last MFF, which was €145.4 billion[11] in nominal terms.

Table 2.A shows payment appropriations for the adopted 2016 EU Budget. This is the original 2016 EU Budget which was formally agreed by the Council and European Parliament in November 2015. This is prior to any in-year budget amendments.

Table 2.A also shows the final agreed 2016 EU Budget. This includes the effects of draft amending budgets 1-6 approved by the Council and European Parliament. In total the final agreed 2016 budget was €7.2 billion lower than when adopted. Chart 2.A shows the payment appropriations by heading for the final agreed 2016 EU Budget.

The final agreed 2016 EU Budget will be referred to in the text, used in tables and displayed in charts throughout this document, unless stated otherwise.

[10] Draft amending budget No. 6/2016: http:/eur-lex.europa.eu/budget/data/BR/2016/en/BR06.pdf

[11] European Commission Financial Report 2013: http://ec.europa.eu/budget/financialreport/2013/management/index_en.html

Table 2.A: 2016 EU Budget

							€ million nominal
Payment Appropriations	**Financial Perspective Ceiling**[12]	**Commission draft 2016 EU Budget**[13]	**Council position**[14]	**European Parliament position**[15]	**Adopted 2016 EU Budget**[16]	**Final Agreed 2016 EU Budget**[17]	**Final Agreed 2015 EU Budget**[18]
1. Smart and Inclusive Growth		66,578	65,923	68,234	66,263	59,291	66,853
1a. Competitiveness for Growth and Jobs		*17,518*	*17,083*	*18,010*	*17,418*	*17,402*	*15,729*
1b. Economic, Social and Territorial Cohesion		*49,060*	*48,840*	*50,224*	*48,844*	*41,888*	*51,125*
2. Sustainable Growth: Natural Resources		55,866	55,615	56,386	55,121	54,972	55,998
3. Security and Citizenship		2,259	2,225	2,846	3,022	3,022	1,929
4. Global Europe		9,539	9,089	9,672	10,156	10,156	7,422
5. Administration		8,910	8,879	8,913	8,935	8,951	8,659
Total Payment Appropriations	144,685	143,541	142,120	146,459	143,885	136,642	141,280

Note: Column totals do not equal the sum of individual items due to rounding and spending not attributable to any heading.

[12] Draft general budget of the European Union for the financial year 2016: http://eur-lex.europa.eu/budget/data/DB/2016/en/SEC00.pdf

[13] Draft general budget of the European Union for the financial year 2016: http://eur-lex.europa.eu/budget/data/DB/2016/en/SEC00.pdf

[14] Draft general budget of the European Union for the financial year 2016: Council position of 4 September 2015: http://data.consilium.europa.eu/doc/document/ST-11706-2015-INIT/en/pdf

[15] European Parliament resolution of 28 October 2015 on the Council position on the draft general budget of the European Union for the financial year 2016: http://www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P8-TA-2015-0376

[16] Definitive adoption of the European Union's general budget for the financial year 2016: http://publications.europa.eu/resource/cellar/d8e65e5d-dac0-11e5-8fea-01aa75ed71a1.0006.01/DOC_1

[17] Draft amending budget No. 6/2016: http:/eur-lex.europa.eu/budget/data/BR/2016/en/BR06.pdf (includes agreed amending Budgets 1-6)

[18] Draft amending budget No. 8/2015: http://eur-lex.europa.eu/budget/data/BR/2015/en/BR08.pdf (includes agreed amending Budgets 1-8)

2.9 Details of the levels of payments in the final agreed 2016 EU Budget are as follows (all figures are nominal)[19]:

- **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 €59.3 billion (£43.5 billion) for 2016.

  Payments towards research, learning, and innovation (Heading 1a) were set at €17.4 billion (£12.8 billion). Payments toward fostering regional growth and employment (Heading 1b) were set at €41.9 billion (£30.7 billion).

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

  Payments in this area were set at €55.0 billion (£40.3 billion) in the 2016 Budget.

- **Heading 3: Security and Citizenship**. Expenditure in this area includes immigration, migration, security, and fundamental rights and justice. Payments for Heading 3 overall in 2016, excluding those associated with the European Union Solidarity Fund, were set at €3.0 billion (£2.2 billion).

- **Heading 4: Global Europe.** Expenditure in this area is focused on EU foreign policy and international development.

  Payments in 2016 for Heading 4 were set at €10.2 billion (£7.5 billion).

- **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 2016 under Heading 5 have been set at €9.0 billion (£6.6 billion).

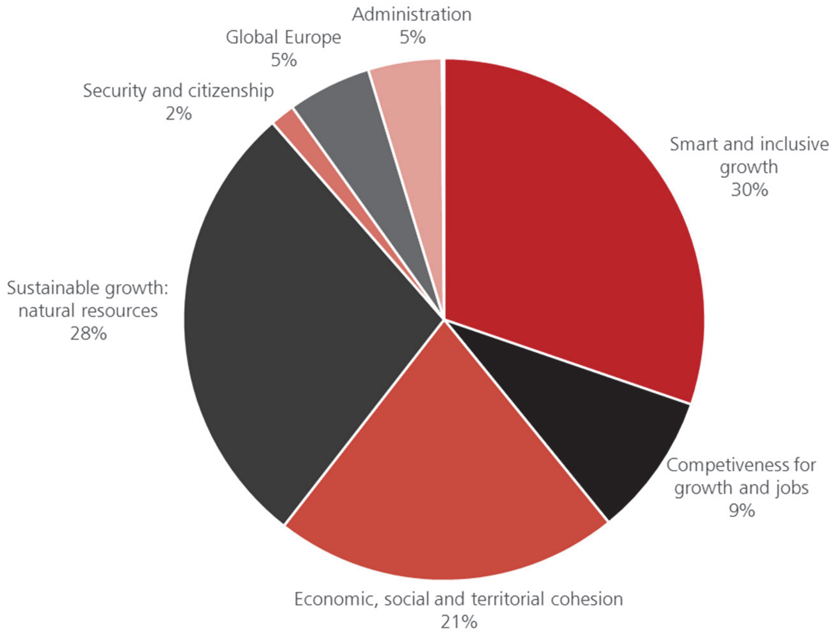
2.10 For 2017, the adopted EU Budget was agreed in November 2016 with commitment appropriations of €157.9 billion[20] (£135.2 billion)[21] and payment appropriations of €134.5 billion (£115.1 billion). This is 6% lower than the adopted 2016 EU Budget. The 2017 EU Budget will be covered in detail in the next EU Finances statement.

[19] Comparison between 2016 and 2015 final agreed budgets in Draft Amending Budget 6 for the 2016 budget: http://eur-lex.europa.eu/budget/data/BR/2016/en/BR06.pdf

[20] EU budget for 2017: http://www.consilium.europa.eu/en/policies/eu-annual-budget/2017/

[21] 2017: £1 = €1.16798. This is the 31 December 2016 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 2017.

Chart 2.A: Final Agreed 2016 EU Budget – payment appropriations by budget heading



Source: Draft amending budget No. 8/2015: http://eur-lex.europa.eu/budget/data/BR/2015/en/BR08.pdf

3 Contributions to the EU Budget

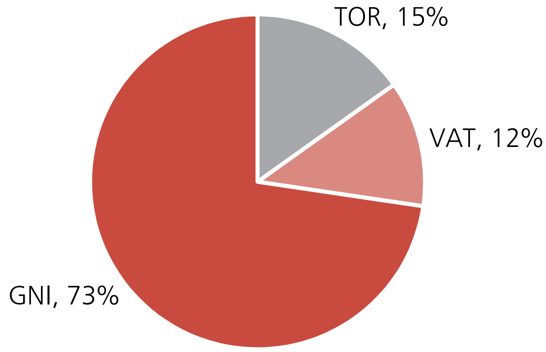
EU revenue

3.1 The Own Resources Decision provides for three sources of EU revenue: customs duties and sugar levies known as Traditional Own Resources (TOR); contributions based on VAT; and GNI-based contributions. A more detailed explanation can be found in the glossary.

3.2 Chart 3.A shows a breakdown of how the 2016 EU Budget was financed. The key points to note for the 2016 EU Budget are[22]:

- TOR is €20.2 billion (£14.9 billion) and the UK's share is 16.0%. In 2015, outturn revenue from this source was €18.7 billion (£13.6 billion), of which the UK's share was 17.1%
- VAT-based contributions are €16.3 billion (£11.9 billion) and the UK's share is 22.4%. In 2015, total VAT-based contributions were €18.1 billion (£13.1 billion), of which the UK's share was 20.7%
- GNI-based contributions are €97.1 billion (£71.3 billion) and the UK's share is 17.2%. In 2015, GNI-based contributions were €101.0 billion (£73.3 billion) with a UK share of 20.4%
- the estimated value of the UK's rebate in 2016 is €6.5 billion (£4.8 billion) compared with €6.1 billion (£4.4 billion) in 2015. A detailed explanation of how the UK rebate is calculated, and how it operates, can be found in the glossary

Chart 3.A: 2016 EU Budget revenue

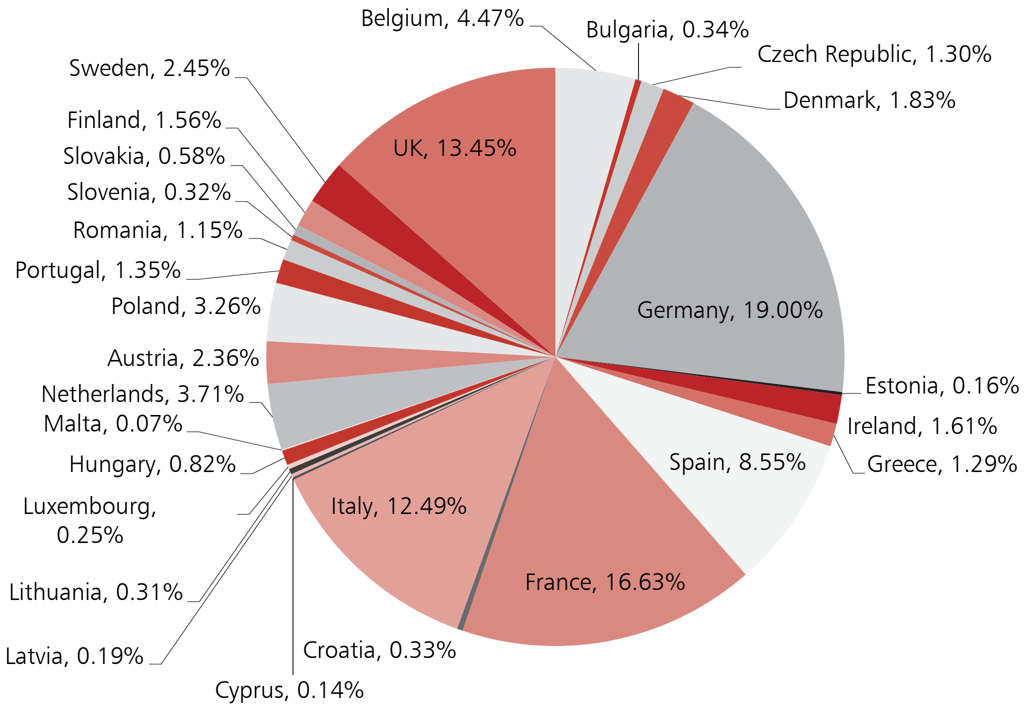


Source: Draft Amending Budget 6 to the 2016 Budget, European Commission

[22] Estimates are sourced from the European Commission's Draft Amending Budget 6 to the 2016 budget. Outturns are sourced from the European Commission's 2015 EU Budget Financial Report.

3.3 Chart 3.B shows each member state's share of financing the 2016 EU Budget, after taking account of the UK rebate.

Chart 3.B: EU Budget revenue 2016 – percentage share after rebates by member state



Source: Draft Amending Budget 6 to the 2016 Budget, European Commission

The UK's net contribution

3.4 Table 3.A shows the UK's gross payments, rebate, public sector receipts and net public sector contributions to the EU Budget for calendar years 2010 to 2016. The figures for 2016 include estimates, those for earlier years are outturn.

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

							£ million
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Gross contribution[1]	15,197	15,357	15,746	18,135	18,778	19,560	16,996
Less: UK rebate	-3,047	-3,143	-3,110	-3,674	-4,416	-4,914	-3,878
Less: Public sector receipts	-4,768	-4,132	-4,169	-3,996	-4,583	-3,883	-4,503
Net public sector contribution[2]	**7,382**	**8,082**	**8,467**	**10,465**	**9,779**	**10,763**	**8,616**

[1] Gross payment figures include Traditional Own Resources payments at 75% up to September 2016 and 80% thereafter. The remainder is retained by the UK.

[2] Receipts figures for 2016 are based on the Office for Budget Responsibility Forecast. All other figures are outturn. Due to rounding, totals may not exactly correspond to the sum of individual items.

Source: Office for Budget Responsibility and HM Treasury calculations

3.5 The fluctuation in the UK's net public sector contribution to the EU Budget results from variations due to the nature of the Own Resources system including variations in public sector receipts, consequent fluctuations in the UK rebate and the exchange rate. For further details, refer to the technical annex and the glossary.

3.6 UK public sector receipts in 2016, mainly from the European Agricultural Guarantee Fund (EAGF), 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.

3.7 The EU makes some payments directly to the private sector, for example to carry out research activities. These payments do not appear in public sector accounts. It is estimated that in 2014, these receipts were worth £1.0 billion[23]. These payments are not included in Table 3.A or Tables 3.C-F, which provide data only on receipts channelled through the public sector.

3.8 The Commission also publish outturn data on all member states' contributions to the EU Budget and their receipts in previous years. These give a figure for UK's net contribution that is different from the numbers derived from the OBR's forecasts and UK data. The main reason for this difference is that the Commission's numbers take into account all of the UK's receipts and include those that go directly to UK-based recipients, such as funding for research paid directly to UK universities.

3.9 The table below sets out the Commission figures for the UK's gross contributions and receipts and the implied net contribution. They are taken from the Commission's latest financial report.

Table 3.B: EU Commission Financial Report data (calendar years)

				£ billion / € billion
	Gross contribution post rebate (€ billion)	Total public and private receipts (€ billion)	Net contribution (€ billion)	Net contribution (£ billion)
2011	13.83	6.57	7.26	6.30
2012	16.18	6.93	9.24	7.50
2013	17.07	6.31	10.76	9.13
2014	14.07	6.98	7.09	5.71
2015	21.41	7.46	13.95	10.13
Average	16.51	6.85	9.66	7.75

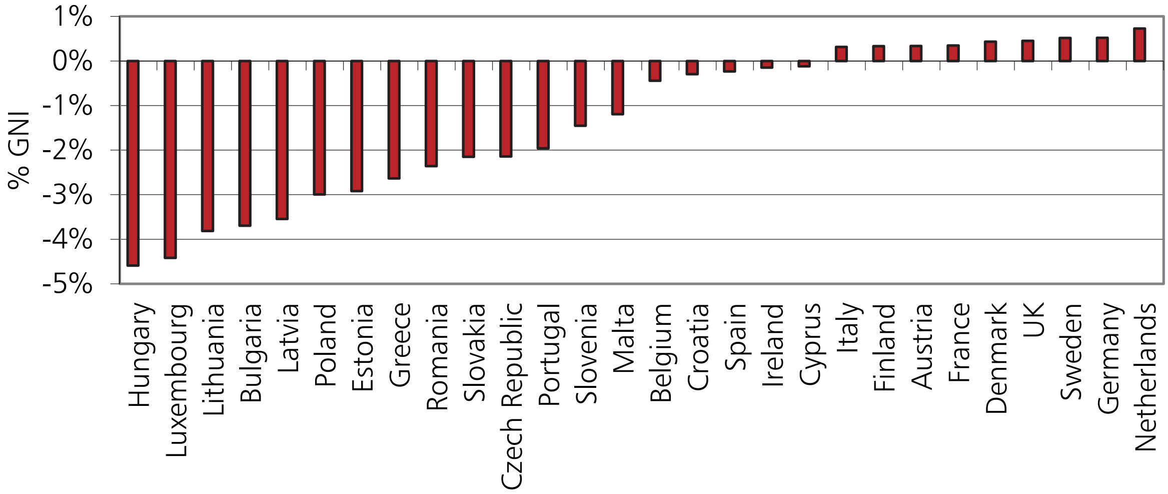
Source: 2015 EU Budget Financial Report, European Commission

3.10 In accordance with a commitment to the PAC, the technical annex of this document explains the main differences in respect of calendar year 2014 between the government's figures and those which can be derived from the European Commission's EU Budget Financial Report.

3.11 Chart 3.C shows how the UK's net position compares with those of other member states.

[23] See technical annex B.

Chart 3.C: Average net contribution by member state for the years 2011-2015



Source: 2015 EU Budget Financial Report, European Commission

Financial year transactions

3.12 The EU financial year runs from 1 January to 31 December, whereas the UK's runs from 1 April to 31 March. Table 3.C gives a breakdown of the UK's transactions with the EU on a financial year basis between 2010-11 and 2015-16.

3.13 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.

Table 3.C: Gross contribution, rebate and receipts (financial years – outturn)

						£ million
	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**
Gross contribution[1]	15,593	15,700	16,871	18,208	18,733	17,635
Less: UK rebate	-2,678	-3,516	-3,172	-4,130	-4,811	-4,068
Less: Public sector receipts	-3,998	-4,771	-4,022	-3,856	-4,690	-2,811
Net public sector contribution[2]	**8,917**	**7,413**	**9,678**	**10,223**	**9,231**	**10,756**

[1] Gross payment figures include Traditional Own Resources payments at 75% up to September 2016 and 80% thereafter. The remainder is retained by the UK. The UK's gross payments are automatically corrected to account for the rebate, meaning the UK only pays over the gross post-rebate amount.

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

Source: HM Treasury calculations

3.14 The Office for Budget Responsibility (OBR) forecasts the UK's contributions to the EU Annual Budget in future years. No assumptions have been made in this statement about the UK's exit from the EU, any future relationship the UK might have with the EU nor any financial implications of the UK leaving the EU. Instead, this statement reproduces the OBR's fiscally neutral assumptions running the EU contributions forecast up until 2021-22, the final year of their forecast horizon. The OBR assumed that EU contributions would be fully recycled into domestic spending from 2019-20. The assumptions underlying their forecasts for these years can be found in the OBR's November 2016 Economic and Fiscal Outlook.

3.15 Table 3.D provides a breakdown of the OBR's latest forecast for UK transactions with the EU over the period 2016-17 to 2021-22. Tables 3.E (outturn figures) and 3.F (forecast) provide a more detailed breakdown of UK receipts by major programmes from the EU Budget over the periods 2010-11 to 2015-16 (outturn) and 2016-17 to 2021-22 (forecast).

Table 3.D: OBR forecast of gross contribution, rebate and receipts (financial years)

						£ million
	2016-17	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Gross contribution[1]	19,196	18,858	19,981	20,780	21,496	22,227
Less: UK rebate	-5,244	-5,323	-4,027	-4,335	-4,632	-4,822
Less: Public sector receipts	-6,041	-5,346	-5,736	-6,043	-6,298	-6,520
Net public sector contribution[2]	7,911	8,189	10,218	10,403	10,566	10,885

[1] Gross payment figures include Traditional Own Resources payments at 80%. The remaining 20% is retained by the UK. The UK's gross payments are automatically corrected to account for the rebate, meaning the UK only pays over the gross post-rebate amount.
[2] Due to rounding, totals may not exactly correspond to the sum of individual items.
Source: November 2016 Economic and Fiscal Outlook, Office for Budget Responsibility

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

						£ million
	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**
EAGF	2,541	2,973	2,956	2,602	2,513	1,318
EAFRD	362	462	298	638	393	619
Social Fund	687	552	366	249	371	543
Regional Development Fund	383	709	327	275	1,308	297
Other Receipts	26	74	75	92	105	34
Total	**3,998**	**4,771**	**4,022**	**3,856**	**4,690**	**2,811**

Source: HM Treasury calculations

Table 3.F: OBR forecast of public sector receipts from the EU Budget (financial years)

						£ million
	2016-17	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
EAGF	4,388	3,331	3,553	3,724	3,873	4,002
EAFRD	424	612	664	705	737	765
Social Fund	671	747	811	861	901	935
Regional Development Fund	514	601	652	692	723	751
Other Receipts	45	53	58	61	64	67
Total	**6,041**	**5,346**	**5,736**	**6,043**	**6,298**	**6,520**

Source: November 2016 Economic and Fiscal Outlook, Office for Budget Responsibility

4 Financial management and anti-fraud issues

4.1 The European Court of Auditors (ECA) produces an annual report that 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. The Commission's annual 'Fight Against Fraud' report details the actions taken by the Commission and 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.

4.2 This chapter provides an overview of the annual reports published in 2015 and concerning the 2014 EU Budget.

European Court of Auditors' annual report on the 2014 EU Budget

4.3 The 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[24]. This report assesses: the fairness and accuracy of the EU budget accounts and the regularity of the underlying transactions (the level of error). The report also contains targeted recommendations to address identified errors and weaknesses. It 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 2014 EU Budget was published on 10 November 2015. 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 a review of the performance of the EU Budget.

ECA's Statement of Assurance

4.6 In the ECA's opinion, the 2014 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.

4.7 The ECA found EU revenue underlying the 2014 accounts to be legal and regular in all material aspects for the eighth consecutive year, and concluded that commitments (money

[24] The European Court of Auditors' annual report on the 2014 EU Budget can be found at: http://www.eca.europa.eu/Lists/ECADocuments/annualreports-2014/annualreports-2014-EN.pdf

assigned to be paid in the current or future years) in all policy areas were also free from material error.

4.8 The ECA found that payments (EU spending) continued to be affected by material error with an estimated error rate of 4.4%[25] for the 2014 EU Budget as a whole, a small decrease from 4.5% for the 2013 budget[26].

4.9 All individually assessed areas of EU spending were affected by material error with the exception of administrative expenditure. The ECA considers an estimated error rate above 2% to be material. The ECA's estimate of the level of error is not a measure of fraud, inefficiency or waste. It is an estimate of the money that should not have been paid out because it was not used in accordance with the relevant rules and regulations. This can include payments for expenditure which was ineligible or for purchases without proper application of public purchasing rules. 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 twenty-first consecutive year, the ECA granted a qualified DAS with regards to the legality and regularity of the transactions underlying the EU Budget accounts.

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

- Chapter 2 – Budgetary and Financial Management: This covers the key budgetary and financial management issues which arose in 2014. These include overall levels of spending, the relationship with budgetary and Multiannual Financial Framework (MFF) ceilings, levels of unpaid payment claims, levels of outstanding commitments and levels of cash held in financial instruments. The ECA recommended that the Commission:
    - act to reduce the level of outstanding commitments
    - consider member states' capacity constraints as part of budgetary and financial management in order to avoid funds being under-used and to increase absorption rates
    - consider measures to reduce outstanding commitments, close 2007-13 commitments faster, reduce cash held by beneficiaries and compile payment plans and forecasts for areas where outstanding commitments exceed a multiple of annual appropriations
    - establish a long term cash flow forecast
    - reinforce efforts to reduce excessive cash balances in financial instruments
- Chapter 3 – Getting Results from the EU Budget: The theme of this chapter is performance and in this report it covers the Europe 2020 strategy, how Europe 2020 objectives are reflected in member states' partnership agreements and programmes, and the Commission's reporting on performance. The ECA concluded that there was some progress in terms of specifying results to be achieved, however, overall there was a weak focus on results due to lack of information about

[25] The European Court of Auditors' annual report on the 2014 EU Budget can be found at: http://www.eca.europa.eu/Lists/ECADocuments/annualreports-2014/annualreports-2014-EN.pdf (para 1.10)

[26] Since publication of the ECA's 2013 annual report, the ECA has updated the way it quantifies serious infringements of public procurement rules, which has resulted in an adjustment downward of reported error rates in 2012 and 2013 by 0.2% and 0.3% respectively. Under the new methodology the 2013 error rate is 4.5%. The ECA say the adjustment has no impact on the conclusions that it reaches, or on the substance of its overall findings, in either year. The level of error remains material.

what EU funding had achieved and poor project selection by member states. This is partially due to lack of alignment between the Europe 2020 strategy and the MFF. The ECA recommended that the Commission should:

- make proposals to better align the EU strategy and the MFF, particularly concerning time periods and priorities. This would help the Commission to report effectively on the contribution of the EU Budget to the EU strategy
- translate the high-level political aims of the EU strategy into useful operational targets for managers by proposing to the legislator that:
  - high-level political aims of the EU strategy are reflected in EU-level objectives
  - partnership agreements and programmes translate these EU-level objectives into operational objectives at member state level
- reinforce the focus on results by proposing to the legislator that:
  - member states must include the quantified results that funding is intended to achieve in their partnership agreements and programmes
  - all partnership agreements and programmes should include common result indicators, which are designed to monitor progress at the local, member state and EU level. These indicators should be shared by different funds where possible
- as far as possible, the performance framework should be based on the common result indicators

- Chapter 4 – Revenue: This covers the revenue through which the EU finances its budget. For 2014, 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 GNI and VAT-based own resources and other revenue were assessed as effective. The examined systems for TOR were also assessed as effective overall, however, key internal controls in member states visited were found to be only partially effective.

  The ECA recommended that the Commission should:

  - take measures during the next verification cycle in order to reduce the number of years that will be covered by reservations at the end of the next cycle
  - take measures to reduce the impact of revisions presented by member states
  - improve guidance on post-clearance audits and encourage implementation by member states
  - ensure that member states have adequate accounting systems for recording items in B accounts and encourage member states to improve their management on the items in these accounts, perhaps by reviewing them on a regular basis to ensure that older items are updated or written off when needed

- Chapter 5 – 'Competitiveness for growth and jobs': This covers spending on research and innovation, enhancing education systems, promoting employment, ensuring a digital single market, promoting renewable and efficient energy, transport and improving the business environment particularly for small and medium-sized enterprises (SMEs). The ECA found that the error rate in this area was 5.6%. The main source of error was reimbursement of ineligible costs for research and innovation projects. The ECA identified the complexity of eligibility rules, variety of beneficiaries and incompatibility of beneficiaries' accounting systems with programme requirements as key factors in the level of error. The ECA recommended that:

- the Commission, national authorities and independent auditors use all information available to prevent, detect and correct errors before reimbursement
- the Commission develop a risk management and control strategy for Horizon 2020, including adequate checks of high risk beneficiaries and of costs declared under specific eligibility criteria
- the Commission ensure that its services take a consistent approach to calculating weighted average error rates and assessing the amounts at risk

- Chapter 6 – 'Economic, social and territorial cohesion': This covers the European Regional Development Fund (ERDF), the Cohesion Fund (CF), the European Social Fund (ESF) and the Fund for European Aid to the Most Deprived (FEAD). Funding in this area aims to reduce development disparities between different regions, restructure declining industrial areas, diversify rural areas and encourage cross-border and inter-regional cooperation. Three quarters of the projects examined by the ECA fully or partially achieved their objectives. The ECA identified the most prevalent type of error as failure to comply with EU and/or national procurement rules. The overall error rate across this MFF heading area was 5.7% (down from 5.9% in 2013). The ECA recommended that:
    - the Commission analyse the eligibility rules for the 2007-13 and 2014-20 programming period to identify good practice and then produce guidance for member states on how to simplify and avoid complex and/or burdensome rules which do not add value
    - managing authorities and intermediary bodies in member states should take account of all available information to strengthen their 'first level checks'. The Commission should ask audit authorities to re-perform some of these checks and share best practices and lessons learnt
    - member states should make better use simplified cost options
    - member states should reimburse beneficiaries within 90 days of the submission of a correct payment claim to ensure full and timely payment of funding
    - the Commission should make a legislative act with respect to extending the eligibility period for financial instruments under shared management to the Council and the Parliament
    - the Commission should include member states in its assessment of the reliability of the financial corrections reported by certifying authorities
    - the Commission should strengthen the control system for audit authorities by:

    - asking audit authorities to provide specific information on audits of operation to verify the accuracy and reliability of the information provided in annual control reports
    - ensuring that audit authorities cover compliance with state aid and public procurement rules in their audit of operations
    - requesting that audit authorities certify the accuracy of data on financial corrections reported by certifying authorities

- Chapter 7 – 'Natural resources': This chapter covers assessments of the European Agricultural Guarantee Fund (EAGF) (one of the two main instruments of the Common Agricultural Policy (CAP) of the EU) and for other spending including rural development, environment, climate action and fisheries. The ECA estimated the error rate as 3.6%. The most significant cause error was overstatement of the number of hectares eligible for support.

  For direct payments, the ECA recommended that:

  - member states make further efforts to include up-to-date information of the size and eligibility of agricultural land in their land-parcel identification system (LPIS) databases, using all available information
  - the Commission takes measures to require that member states' action plans include actions to address the frequent causes of error

  For Rural Development, the ECA recommended that:

  - the Commission revise its strategy for rural development conformity audits to establish whether systems weaknesses found in one region are also present in others

  For both Rural Development, and direct payments the ECA recommended that:

  - the Commission ensures that new assurance procedures on the legality and regularity of transactions which took effect in 2015 are correctly applied by certification bodies

  For Fisheries, the ECA recommends that:

  - the Commission ensures that member state audit authorities carry out fisheries related tasks more thoroughly, particularly by performing on the spot controls, applying quality control procedures and improving audit documentation

- Chapter 8 – 'Global Europe': This chapter covers payments in the fields of external relations, development and humanitarian aid, measures for EU candidate and accession countries and expenditure related to regional policy, rural development, research and other internal policies. The ECA found that the estimated error rate is 2.7%. Ineligible expenditure was the most significant type of error, all reported cases relate to grant contracts or contracts implemented by international organisations. The ECA recommends that the Commission, particularly EuropeAid:

  - sets up and implements internal control procedures to ensure that pre-financing is cleared on the basis of incurred expenditure, not including legal commitments

- strengthens controls for grant contracts by using risk-based assessments and systematically following up for verification

- Chapter 9 – 'Administration': 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 concluded that payments were not affected by material error (estimated error rate of 0.5%, down from 1.1% in 2013) but noted weaknesses in checks carried out by the European Parliament on political parties' expenditure, in some of the European Economic and Social Committee's (EESC) procurement procedures and a small number of errors relating to calculating staff costs and managing family allowances. The ECA recommended that:

    - the European Parliament reinforces its checks on costs reimbursed by European political parties to their affiliated organisations and develops and monitors appropriate rules for political parties and public procurement

    - the EESC improve the design, coordination and conduct of procurement procedures through appropriate checks and better guidance

    - the institutions and bodies improve monitoring systems for updating the personal situation of staff which can have an impact on the calculation of family allowances

Council recommendation to the European Parliament on Discharge

4.12 On 11 February 2016[27], the Council noted both the ECA's Statement of Assurance on the implementation of the EU Budget for the financial year 2014 and the ECA's analysis of the audit findings and conclusions[28]. The Council stressed the importance of independent audits carried out at EU level and strongly supported the ECA's work and audit findings[29].

4.13 However, the Council remained concerned that payments from the EU Budget continued to be materially affected by error, and reiterated its desire to see year-on-year improvements in financial management systems and the estimated level of error across all policy areas. The Council also stated that simplification of rules is key to achieving a lower error rate and invited the Commission and member states to use the simplification options available.

4.14 In its conclusions responding to the ECA's Statement of Assurance, the Council made a number of recommendations[30]. The Council:

- noted with concern that, throughout almost all chapters of expenditure, the estimated level of error could have been reduced substantially if the Commission, national authorities and independent auditors used all information available to them, to prevent, detect and correct errors

[27] https://polcms.secure.europarl.europa.eu/cmsdata/upload/3145112a-6680-4376-a4ed-9b4eadf0e256/council_re_commission_fin_en.pdf
[28] https://polcms.secure.europarl.europa.eu/cmsdata/upload/3145112a-6680-4376-a4ed-9b4eadf0e256/council_re_commission_fin_en.pdf
[29] https://polcms.secure.europarl.europa.eu/cmsdata/upload/3145112a-6680-4376-a4ed-9b4eadf0e256/council_re_commission_fin_en.pdf
[30] Council recommendations on the 2014 discharge: https://polcms.secure.europarl.europa.eu/cmsdata/upload/a3cec2fc-1a75-44f3-aa52-fb1daf0b6ecf/council_re_commission_ADD_en.pdf

- encouraged the Commission to supervise and co-operate with member states and to provide appropriate, consistent guidance to national managing and audit authorities to reduce estimated levels of error in EU spending
- called on member states to continue to co-operate with the Commission and to prioritise improving the quality of first level checks to detect, prevent and correct errors
- encouraged the ECA to build on the progress made so far in ensuring a high level of transparency and detail on each spending area in its report and ensure that future reports give continuity and comparability between years and policy areas
- encouraged the Court to provide a more detailed analysis of the expenditure in heading 3 (Security and Citizenship), in line with the increased spending in this area
- invited the Commission and member states to take full advantage of the existing simplification options when implementing the programmes under the new legislative framework for the period 2014-20
- called on the Commission and member states to improve the quality and efficiency of management and control systems. The Council emphasised that preventive measures by the Commission, such as interruption and suspension of payments should be applied strictly in line with the relevant rules in order to protect the EU Budget
- called upon the Commission to continue implementing corrective measures. The Council noted that the estimated level of error reported was reduced from 5.5% to 4.4% because the ECA took account of corrective measures applied by the Commission and member states when these were made prior to payment or before the Court's audit
- noted with concern that the Commission only has limited information available on the pre-financed amount in financial instruments under shared management and that it may need to make significant adjustments at closure of the 2007-13 programming period. The Council called on the Commission to ensure that its information on financial instruments under shared management is adequate and transparent
- encouraged the ECA, the Commission and member states to improve the timely exchange of information and to explore ways to increase mutual understanding and transparency about their application of the principle of "Single Audit". The Council stressed the need for further exchange and disclosure of relevant and available information
- highlighted that non-compliance with public procurement rules remains a major source of errors, affecting all spending areas. The Council recognised the complexity of those rules and welcomed the Commission’s efforts to address weaknesses in this area. The Council encouraged the Commission to aim at further simplification and work with member states to further strengthen their efforts to prevent errors in public procurement and to carry out the measures set up in the 2013 Commission Action Plan on public procurement

4.15 On 11 February 2016, Sweden and the UK voted against the Council’s recommendation on discharge for the fifth consecutive year in order to highlight the need for further improvements in budgetary management. Sweden and the UK also submitted a joint counter-statement calling for progress in key areas, including notably improving the performance of EU expenditure and the management of EU budget funds.[31]

The European Parliament takes a final decision on whether to discharge the EU Budget

4.16 On 28 April 2016, the European Parliament formally approved the discharge of the EU budget accounts for 2014 and issued their Resolution.[32] It does so having considered the ECA's report, the Commission's response, and the recommendation of the Council.

UK government's response to the European Commission's questionnaire on ECA findings

4.17 The ECA report included examples of specific issues identified in individual member states, including the UK. These examples are used to illustrate the issues raised in the report. The European Commission sends a questionnaire to member states so that they can respond to all ECA findings. The Treasury co-ordinates a cross-Whitehall response with individual departments providing detail on the mentions which are relevant to them. This could involve giving detail of how the UK addresses such problems, noting that sanctions were applied or highlighting ongoing work. The Treasury also ensures that relevant views from departments are fed into working group discussions with other member states and the Commission on the substance of the report.

4.18 In all cases where weaknesses were identified, the relevant UK authorities engage with the Commission and the ECA and, where appropriate, took steps to strengthen national systems and processes. Below is an example of two such cases.

4.19 *Audit Finding:* Over-declaration of area;

UK response: The finding was accepted and the land-parcel identification system (LPIS) was amended

Audit Finding: Ineligible payment, insufficient administrative checks in applications for support;

UK response: The finding was accepted and the necessary recovery action taken. An appeal to this recovery was successfully upheld and the debt cancelled.

Fight against Fraud Report 2014

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

4.21 As in previous years, the report 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

[31] https://polcms.secure.europarl.europa.eu/cmsdata/upload/e4c01b2a-5ac5-4af4-935b-eeffd0a2f514/2016-02-12%20Joint%20Statement%20on%20the%20Discharge%20of%20the%202014%20EU%20Budget.pdf

[32] https://polcms.secure.europarl.europa.eu/cmsdata/upload/14ef75d9-bf17-4fd2-b74b-79ef12ddc960/P8_TA-PROV(2016)0150_EN.pdf

systems and suspected fraud (with a distinction made between fraud and other irregularities), and on measures taken to deal with them. The 2014 report[33], published on 31 July 2015, covers:

- anti-fraud policies at the EU level;
- measures taken by member states to counter fraud and other illegal activities which affect the EU's financial interests;
- 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 TOR; and expenditure directly managed by the Commission;
- recovery of irregular amounts in 2014.

4.22 The report is accompanied by six Commission Staff Working Papers: (i) Implementation of Article 325 TFEU by the member states in 2014; (ii) Statistical Evaluation of Irregularities reported for 2014; (iii) Follow-up recommendations to the Commission report on the protection of the EU's financial interests - Fight Against Fraud 2014; (iv) Methodology regarding the statistical evaluation of reported irregularities for 2014; (v) Annual overview with information on the results of the Hercule II programme in 2014; and (vi) Implementation of the Commission Anti-Fraud Strategy (CAFS).

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

Irregularities reported as fraudulent

4.24 In 2014, a total of 1,649 irregularities were reported as fraudulent (suspected and established fraud), of which 939 were related to expenditure and 710 were related to revenue (for example, customs fraud). The estimated financial impact of irregularities reported as fraudulent was €538.2 million (£434 million) in 2014. Revenue (e.g. customs) accounted for the highest number of irregularities reported as fraudulent. However, Cohesion policy accounted for the highest value of suspected fraudulent transactions, at 0.51% of the total amounts involved.

Other irregularities (not reported as fraudulent)

4.25 In 2013, a total of 14,824 non-fraudulent irregularities were reported. The estimated financial impact of these irregularities was €2.7 billion (£2.2 billion).

4.26 The report considers the actions taken by the Commission in 2014 to counter fraud, including use of financial corrections and preventive measures where fraud was suspected. Total financial corrections and recoveries implemented in 2013 amounted to €3 billion (£2.4 billion).

4.27 The report's recommendations called for all member states to:

- use their Anti-Fraud Coordination Service (AFCOS) to its full potential;
- transpose the definition of 'conflict of interest' contained in the Public Procurement Directive into national legislation;
- fight customs fraud by informing the Commission of measures taken to strengthen co-operation and ensure that all transactions and economic operators are included for post-clearance controls, and to share experiences of cases where customs authorities are successful in detecting fraud or irregularities at the time of clearance.

[33] The Commission's Fight against Fraud report 2014, published on 31 July 2015, can be found at: https://ec.europa.eu/anti-fraud/sites/antifraud/files/docs/body/pif_report_2015_en.pdf

Fifteenth Report of the European Anti-Fraud Office (1 January to 31 December 2014)

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

4.29 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.

4.30 Every year, the OLAF Director publishes a report on the activities of the Office over the previous year. The fifteenth report, issued in April 2015, gave a summary of OLAF's achievements in 2015, supported by statistics and case studies.[34]

4.31 The following statistics were reported for 2014:

- 1,417 items of information were received in 2014 from public and private sources
- 288 new cases were opened in 2014, of which 234 were investigations while 54 were opened as cases for which OLAF took a coordination role
- 397 recommendations for action were issued in 2014
- the duration of the investigation cases was an average of 21 months
- Structural funds accounted for the highest number of investigations
- €206.5 million (£166.4 million) was recovered in total as a result of OLAF's investigations, with the highest amounts recorded for customs fraud (€135 million, or £109 million), Agricultural Funds (€43 million, or £35 million) and Structural Funds (€22.7 million, or £18.3 million)

4.32 In the policy field, OLAF continued to actively engage in a number of projects, including:

- overall EU strategy against the illicit tobacco trade
- contributing to legislative proposals to develop the EU's anti-fraud policy
- actions to ensure data protection compliance

4.33 In 2014, OLAF operated on an administrative budget of €57 million (£46 million).

[34] OLAF's fifteenth activity report can be found at: https://ec.europa.eu/anti-fraud/sites/antifraud/files/docs/body/olaf_report_2014_en.pdf

5 Government strategy on using EU funds in the UK

5.1 The Public Accounts Committee (PAC) reported on the financial management of the EU Budget in April 2016[35]. Reflecting their recommendations, the Treasury, in its November 2016 response[36], committed to set out the government's strategy and the overall context for expenditure of EU funds in the UK, particularly following the referendum.

5.2 The government is fully committed to maintaining the greatest possible transparency on the use of EU funds at a cross-government level. As part of ongoing work to improve the accountability for, and transparency of, EU funds, and in line with Treasury response to the PAC, this chapter covers: the government's strategy for using EU funds while the UK remains a member state, including the existing strategies in place for ensuring value for money of key EU funds; the government's strategy for managing down corrections imposed by the European Commission; and assurances provided by the government to provide certainty to recipients whilst the UK remains a member state. Where relevant, this chapter focuses on Common Agricultural Policy and European Structural and Investment Funds as collectively they constitute the vast majority of UK public sector receipts from the EU budget (in 2015-16, they accounted for 98.8% of UK public sector receipts)[37].

5.3 Annex D contains detailed information on the use of EU funds within the UK with data collated from a variety of publications, including departmental annual accounts and reports. Where relevant, key data set out in Annex D will be highlighted in this chapter.

5.4 In accordance with the devolution settlement, relations with the EU are the responsibility of Parliament and the government of the United Kingdom, as the 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 chapter and Annex D have been prepared without prejudice to the devolution of these responsibilities and in the main focus on English departments.

Government strategy for using EU funds

5.5 The UK will continue to have all of the rights, obligations and benefits that membership of the EU brings, including on the EU Budget, up until the point the UK leaves. While the UK remains a member state, the government's overall approach to the EU Budget will continue to be to:

- minimise UK contributions to the Budget by arguing for budgetary restraint at a European level
- maximise the value for money and impact of all EU spending by constructively engaging in European-level discussions on how funds are spent
- maximise the value for money and impact of EU spending that takes place in the UK by implementing clear strategies relating to the use of EU funds

[35] http://www.publications.parliament.uk/pa/cm201516/cmselect/cmpubacc/730/73002.htm

[36] https://www.gov.uk/government/publications/treasury-minutes-november-2016

[37] The Home Office, for example, also manages EU funds. However, disallowances relating to those funds are not material to Home Office accounts. As set out in table 4.B, as at 1 April 2015, 'other' funds represented less than 1% of all disallowance provisions in the UK.

5.6 Ultimate responsibility for implementing the EU Budget lies with the European Commission. But in practice, some 80% of the EU Budget is spent under what is known as 'shared management', with individual EU countries distributing funds and managing expenditure in accordance with agreements between member states and the European Commission[38].

5.7 To ensure the best use of EU funds, and reflecting the different nature of the various funds in place, the government has a series of strategies in place for the effective management of each of the main EU funds it manages. Where relevant for national allocations of EU funds, strategy documents are agreed with the Commission at the beginning of the programming period, setting out intended results and priorities to achieve maximum value for money. These are agreed in line with both EU and clearly defined domestic priorities.

Table 5.A: UK allocations for key EU funds under "shared management"

Fund	2014-20 allocation (€bns)	2014-20 allocation (£bns)[39]
European Agricultural Guarantee Fund (EAGF) or Pillar 1 of Common Agricultural Policy[40]	22.7	16.7
European Regional Development Fund (ERDF) + European Social Fund (ESF)[41]	11	8.1
European Agricultural Fund for Rural Development (EARDF)[42]	5.2	3.8
European Maritime and Fisheries Fund (EMFF)	0.2	0.1

5.8 Common Agricultural Policy (CAP) Pillar 1, funded through the European Agricultural Guarantee Fund (EAGF), primarily involves direct payments to farmers and is the largest source of UK receipts. The Commission does not require strategic programming for EAGF, but DEFRA's policy approach in England is set out in a series of formal consultation responses, which take full account of the interests of the industry and other relevant stakeholders, and reflects the government's overall approach set out above[43]. DEFRA's overall approach for using CAP receipts is based on commitments to:

- implement CAP in England in a way that, wherever possible, supports a resilient and competitive English farming sector
- simplify, wherever possible, the rules that farmers and other CAP beneficiaries have to adhere to
- strengthen how the sector delivers outcomes for the public good, primarily through rural development funds targeted at improving the environment and growing the rural economy

[38] Further information on the auditing arrangements for the main shared management funds can be found in Annex D.
[39] Converted at current exchange rates.
[40] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012R0671&from=EN; http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0994&from=EN; http://data.consilium.europa.eu/doc/document/ST-14561-2014-ADD-1/en/pdf
[41] https://www.gov.uk/government/publications/european-structural-and-investment-funds-uk-partnership-agreement
[42] http://data.consilium.europa.eu/doc/document/ST-14561-2014-ADD-1/en/pdf
[43] https://www.gov.uk/government/consultations/common-agricultural-policy-reform-implementation-in-england

- minimise overall implementation costs to government and the sector

5.9 DEFRA has been delivering CAP Pillar 1 in line with these key principles since the beginning of the 2014-2020 programming period. For example, in implementing greening requirements, which set out environmental and ecological conditions for the use of funds, DEFRA has taken advantage of the discretion member states have to implement EU rules flexibly and provided a package of options which give farmers a choice over how they comply with the rules.[44]

5.10 European Structural and Investment Funds (ESIF), which include the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD, sometimes referred to as the second pillar of Common Agricultural Policy) and the European Maritime and Fisheries Fund (EMFF), make up the second largest proportion of UK public sector receipts from the EU and involve investment in the real economy by supporting job creation and economic growth. The UK Partnership Agreement[45] sets out the plans and priorities for the deployment of these funds to complement EU and UK objectives on sustainable jobs and growth, and again reflects the government's overall approach set out above. The Agreement was formed by working closely with devolved administrations and with Local Enterprise Partnerships (LEPs) in England. For the 2014-20 programming period, the UK decided that the overall objectives for ESIF would include:

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

5.11 Underpinning the Partnership Agreement are detailed Operational Programmes setting out the strategy and priorities for each fund in each of the constituent nations along with information about management and delivery. UK management of ESIF has promoted value for money by: setting consistent performance management standards across different programmes; establishing a strategic framework for investments; and prioritising local needs.

5.12 The Department for Business, Energy and Industrial Strategy (BEIS) has overall policy responsibility for ESIF across the UK and was responsible for negotiating the UK's Partnership Agreement with the Commission on behalf of all the UK's Managing Authorities, including the devolved administrations. Managing Authorities are responsible for negotiating and implementing individual Operational Programmes for each Fund. For England, the Managing Authorities are: the Department for Communities and Local Government (DCLG) for ERDF, Department for Work and Pensions (DWP) for ESF, and DEFRA for EAFRD. The Marine Management Organisation (MMO) manages the EMFF for the whole of the UK.

44 https://www.gov.uk/government/news/cap-greening-criteria-announced

45 https://www.gov.uk/government/publications/european-structural-and-investment-funds-uk-partnership-agreement

5.13 Annex D sets out historical information on the levels of EU expenditure in the UK between 2010-11 and 2015-16 and breaks down this information by fund and, where possible, between England and the devolved administrations.

Government strategy for minimising disallowances

5.14 As part of their oversight of EU Budget spending, the Commission can impose financial corrections on member states for failing to apply EU Regulations correctly in managing and administering EU schemes. In such circumstances, the EU reduces the amount paid to the member state. These corrections are known as 'disallowances'. The next section of this chapter, entitled 'disallowances in the UK', and Annex D, have further information on the background and data available relating to disallowances.

5.15 The government has taken, and will continue to take, the issue of disallowances very seriously, especially in those areas that constitute a material element of public spending in that policy area, such as CAP. As set out in the November 2016 response to the PAC, the Treasury exercises close oversight of the disallowances incurred by departments. For example, the Treasury coordinates the annual UK response to the European Court of Auditors (ECA) audit findings and, for financial errors identified by the ECA, departments are required to respond to every case and implement any required follow-up actions.

5.16 The government strategy for managing down disallowance risks consists of:

- clear central oversight and clear lines of accountability through the Treasury to departments;
- focussing efforts and investment on early identification of risks and sharing best practice if appropriate
- engagement at departmental level with the European Commission to advance the simplification agenda

5.17 In the new policy context following the EU referendum and following the PAC report, the Treasury has strengthened governance around the management of EU funds ahead of the UK's exit from the EU. A Director-level cross-Whitehall network has been established, bringing together departments with Treasury spending teams to ensure effective oversight of the implementation of EU funds and regular communication on live issues related to the implementation of funds. The Treasury has enhanced its existing systems of monitoring flows of money from the EU and the implementation of these funds to ensure that departments and the Treasury hold the same, up-to-date, quantitative data on implementation.

5.18 The governance and accountability arrangements are an integral part of the government's strategy for managing down the risk of financial corrections. Individual departments are accountable for developing and implementing strategies for managing expenditure risks. As part of this, departments ensure all checks on EU spending are robust, monitoring the results of audits to inform improvements. Departments and agencies managing EU funds within England have been asked to identify the main areas where they risk disallowances being imposed and implement measures to address these. Appropriate measures will vary between departments and funds, but below are examples of how DEFRA and BEIS, who have oversight of the majority of public sector EU funds in the England, are reducing the risk of disallowances.

CAP

5.19 Historically, no member state has achieved zero disallowance under the CAP regime, illustrating the complexity of the schemes and the challenges and costs of complying with them.

However, DEFRA are committed to making substantive progress and taking cost-effective action to reduce disallowance as low as possible. DEFRA's strategy is focused on the following areas:

- Assessing risk and prioritising actions: DEFRA maintain an up to date picture of how they are meeting EU requirements in order to assess disallowance risks for each scheme – a range of sources are used to do this, including any emerging Commission guidance on the scheme rules. This process aims to identify risks early and before they are detected by Commission auditors. Efforts are focused on the Basic Payment Scheme, cross compliance, Pillar 2, and Fruit and Vegetable Producer Organisations, as these are the main areas of risk. Mitigation measures are then focussed on addressing the major causes of possible disallowances and prioritised on the basis of their likely impact, as well as how they fit with wider government policy. The priorities are regularly updated, so as to reflect the latest information, and to ensure efforts continue to be well targeted.

- Cost-effective investments: DEFRA invest in mitigation measures where they are likely to save more in disallowance than they cost in implementation. For example, the quality of mapping data, used to administer CAP payments, has historically been the biggest cause of disallowance. DEFRA are therefore investing in improving the mapping data, such as through the use of additional satellite imagery, in order to reduce disallowance. DEFRA has also continued to make improvements to its IT systems through the CAP Delivery Programme. Any new or amended EU regulations will be implemented in the most cost-effective way possible, taking account of disallowance risks and the views of stakeholders.

- Continued EU engagement: The CAP is governed by complex rules, which drive up the risk and incidence of disallowance. DEFRA are continuing to engage constructively with the Commission's simplification exercise and will continue to argue against new measures which would not be cost effective to implement. DEFRA also challenge the Commission's proposals for disallowances that they believe are disproportionate compared to the risk to the fund, often resulting in lower disallowances being applied. They will continue to do this. They also engage with other member states, exchanging information about the scope and outcome of EU audits in order to approve assessment of disallowance risks, such as through the Learning Network of EU CAP Paying Agencies.

5.20 Progress in implementing DEFRA's disallowance strategy is overseen by the Department's Disallowance Steering Group, which meets monthly. It is important to note that the impacts of mitigating actions can take time to flow through to results and will not always be immediately visible. DEFRA recognises that reducing disallowance requires a range of actions, and continues to engage with the rest of government, the European Commission and other member states on best practice.

ESIF

5.21 BEIS works with the Managing Authorities (including DCLG, DWP and DEFRA) and the devolved administrations to ensure that ESIF are managed appropriately. Managing Authorities have to demonstrate that they comply with certain criteria set out in the ESIF regulations. For example, they must demonstrate that they have arrangements to train those involved in implementation on state aid and public procurement law, since failure to comply with these areas is a major cause of error. In order to ensure compliance with the EU rules, and reduce disallowances, a range of measures have been implemented, such as administrative simplification.

5.22 BEIS and Managing Authorities have put in place an early warning system to identify potential disallowances quickly using the Partnership Agreement Programme Board. This helps to share expertise between the Managing Authorities and BEIS and to identify lessons learnt. In addition, Managing Authorities are drawing on the experiences from previous programming periods to counteract the risk of disallowances. These include a strengthening of administrative and on-the-spot control checks and checking all expenditure prior to paying out to beneficiaries or reclaiming it from the Commission. Verification checks of expenditure vary between the Managing Authorities, but typically include desk checks, site visits and checks by the Certifying Authority. More generally, projects are risk assessed and scored as part of approval, and, in most Managing Authorities, a control plan is put in place with higher risk scores leading to more intensive scrutiny.

5.23 Across all funds, a range of networks exist to share learning and best practice, both between UK authorities and with other member states, in which the UK will continue to participate while an EU member state. In addition to domestic efforts, the UK will continue to engage with the EU until exit and this includes working on the rules governing EU expenditure. The UK continues to push for simplified rules across all areas of EU expenditure. Many errors in EU spending are due to the complexities of the regulations governing different programmes, therefore simplifying the rules will reduce the number of errors and therefore reduce the disallowances incurred. On-going UK engagement with the EU institutions and member states has led to a range of UK proposals on simplification and harmonisation being included in the Commission's proposed changes to EU regulations. Some of these changes are likely to take effect before the UK leaves the EU.

Disallowances in the UK

5.24 The European Court of Auditors (ECA), established to audit the EU's finances, provide annual statements on the legality and regularity of the transactions underlying EU spending. A summary of the statement for Budget year 2014 is set out in chapter 4. As part of their statement, the ECA estimates the level of error present in EU Budget expenditure, due to it not being used in accordance with EU rules. Whilst the ECA calculate error rates for the EU Budget as a whole, they are clear that they only sample a limited number of transactions in each member state and the "relative frequency of error in samples drawn in different member states cannot be a guide to the relative level of error in different member states"[46].

5.25 The errors identified by the ECA do not necessary lead to actual disallowances. The European Commission is the only actor that can take a view on whether EU regulations have not been applied correctly in the UK and apply a financial correction[47]. In addition to audits by the Commission on some schemes, departments are audited annually by independent national audit authorities who report to the Commission. They analyse the causes of errors, make recommendations and provide an assessment of corrections.

5.26 Government departments publish information about possible disallowances in their departmental annual accounts and reports. The Treasury monitors these disallowances. The devolved administrations account for disallowances relating to their funds separately. Following PAC recommendations and to ensure Parliament and other interested parties are fully apprised of this information, as well as assured of the oversight that the Treasury takes, this annual statement brings together government information on disallowances.

5.27 A disallowance provision is recognised in departmental accounts where there is a past event (for example an ineligible payment or a failure to comply with the regulations) which is likely to lead to the EU disallowing expenditure and not reimbursing the UK. Managing Authorities are responsible for estimating the value of any provisions required. Table 5.B sets out data from 2015-16 departmental accounts including: provisions for future corrections added to departmental accounts over the course of 2015-16; provisions 'released' by departments during the year, which

[46] http://www.eca.europa.eu/Lists/ECADocuments/annualreports-2014/annualreports-2014-EN.pdf

[47] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/547296/defra-annual-report-2015-2016-web.pdf

is the value of provisions no longer expected to materialise into actual disallowances; and provisions 'utilised' in year, which is the value of provisions that are expected to materialise within 12 months (they are no longer a future long-term liability, but are expected to be imposed by the European Commission). Whilst information on disallowances can, to some extent, indicate levels of error in the management of EU funds in the UK, it is important to note the following:

- disallowance provisions added to balance sheets in any given year can relate to activity that has taken place in a number of previous years
- disallowances can be challenged by departments and are sometimes successfully overturned
- the ultimate financial impact on the UK taxpayer will be less than the actual disallowance imposed by the Commission due to the operation of the rebate system
- as set out earlier in this chapter, disallowances are often illustrative of the complexity of the regulations governing EU funds rather than any misuse of funds
- figures may not be directly comparable across funds, due to the different ways in which funds work and different levels of complexity in place for the various Managing Authorities

5.28 As demonstrated by the data in table 4.B, a significant portion of provisions in 2015-16 related to agricultural policy funding – largely due to the size of the fund and the complexity of the regulations. There were also some disallowances relating to the European Social Fund. The overall provisions for future financial corrections relating to agricultural funding have decreased as at the balance sheet date of the 31 March 2016. Annex D sets out historical information on disallowances and provisions for them.

5.29 In subsequent annual statements, the government will provide updates on how the government is performing against the strategies above, including in its efforts to minimise disallowances. In doing so, the Treasury will draw on the information which departments already publish.

Certainty for beneficiaries of EU funds

5.30 The government has been clear that British businesses, farmers and other organisations can continue to apply for EU funds and benefit from them while the UK remains a member state. In October 2016[48], the Chancellor announced that the government will guarantee ESIF projects, including agri-environment schemes, which are signed while the UK remains a member state, even if projects run on after the UK has left the EU.

5.31 Funding for ESIF projects in England will be honoured by the government if they are good value for money and are in line with domestic priorities. Government departments will take responsibility for allocating money to projects in line with these conditions. Where the devolved administrations sign up to ESIF projects under their current EU budget allocation prior to the UK's exit from the EU, the government will ensure they are funded to meet these commitments.

5.32 In the non-ESIF funding streams, the Chancellor guaranteed that the current level of agricultural funding under Common Agricultural Policy Pillar 1 will be upheld until 2020, as part of the transition to new arrangements. Earlier in 2016[49], the Chancellor also provided assurances that UK businesses and universities should continue to bid for competitive EU funds while the UK remains a member of the EU and the government will work with the Commission to ensure

[48] https://www.gov.uk/government/news/further-certainty-on-eu-funding-for-hundreds-of-british-projects
[49] https://www.gov.uk/government/news/chancellor-philip-hammond-guarantees-eu-funding-beyond-date-uk-leaves-the-eu

payment when funds are awarded. The Treasury will underwrite the payment of such awards, even when specific projects continue beyond the UK's departure from the EU.

5.33 These assurances provide certainty to the current recipients of EU funds whilst future arrangements are decided through wide consultation.

Table 5.B: Provisions in England and devolved administrations (DAs) for future financial corrections 2015-16

£ thousands

	Agricultural Funding		European Social Fund		European Regional Development Fund		Other		Total	
	England[50]	DAs[51]	England[52]	DAs[53]	England[54]	DAs[55]	England[56]	DAs	England	DAs
As at 1 April 2015	-64,513	0	0	0	0	-1,198	-632	0	-65,145	-1,198
Created during the year	-17,224	-1,012	0	-14,332	0	0	0	0	-17,224	-15,344
Released in year	0	0	0	0	0	0	335	0	335	0
Utilised	64,099	0	0	0	0	0	297	0	64,396	0
As at 31 March 2016	**-17,638**	**-1,012**	**0**	**-14,332**	**0**	**-1,198**	**0**	**0**	**-17,638**	**-16,542**
Total UK as at 31 March 2016	-18,650		-14,332		-1,198		0		-34,180	

In England: agricultural funding is primarily the responsibility of the Department for Environment, Food & Rural Affairs (the European Maritime and Fisheries Fund, included in agricultural funding figures, is the responsibility of the Marine Management Organisation, an executive non-departmental public body sponsored by DEFRA); the European Social Fund is the responsibility of the Department for Work and Pensions; the European Regional Development Fund is the responsibility of Department for Communities and Local Government. 'Other' contains small funds, such as the Asylum, Migration, and Integration Fund (AMIF), which are the responsibility of the Home Office. As at 1 April 2015, provisions relating to 'Other' funds represented less than 1% of all disallowance provisions (as at 31 March 2016, there were no provisions relating to 'Other' funds).

The DAs are responsible for implementing EU obligations relating to devolved matters.

50 https://www.gov.uk/government/publications/defras-annual-report-and-accounts-2015-to-2016 (this is includes European Maritime and Fisheries Fund)

51 http://www.gov.scot/Resource/0050/00506453.pdf (included in 'other provisions' aggregate)

52 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/534933/dwp-annual-report-and-accounts-2015-2016.pdf (no provisions reported)

53 http://www.gov.scot/Resource/0050/00506453.pdf

54 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/536593/56046_DCLG_ARA_Web_only.pdf (no provisions reported)

55 http://www.gov.scot/Resource/0048/00486683.pdf (restatement of prior year figure and included in 'other provisions' aggregate in 2014-15 accounts)

56 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/539638/HO_AR_16_gov.pdf (restatement of prior year figure and included in overall departmental provisions' aggregate)

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 some 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 of the Treaty on the functioning of the EU[57]. 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. It must also report back to the budgetary authority on follow-up actions taken in response to Parliament and Council's recommendations.

European Structural and Investment Funds

A.3 European Structural and Investment Funds (ESIF), often referred to as Structural Funds, are intended to resolve structural economic and social problems. For the 2014-20 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

[57] Consolidated Version of the Treaty on the Functioning of the European Union: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:12012E/TXT&from=en

- 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.

Flexibility Instrument

A.4 The Flexibility Instrument was established under paragraph 24 of the 1999 Inter-institutional Agreement[58], which allows for expenditure in any given Budget year of up to €471 million (2011 prices) above the MFF ceilings established for one or more Budget headings. Any portion of the Flexibility Instrument unused at the end of one year may be carried over for up to three subsequent years. The Flexibility Instrument is intended 'to allow the financing, for a given financial year, of clearly identified expenditure which could not be financed within the limits of the ceilings available for one or more other headings'.[59] It 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.5 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.6 Irregularity (as defined by Council Regulation 2988/95) covers 'any infringement of a provision of Community law' caused by an act or omission which leads to reduction in EU revenue, or loss or misspending of EU funds. Irregularities are distinct from fraud in that they are financial errors as opposed to intentional, criminal misuse of funds. 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.7 The IIA is a politically and legally binding agreement that clarifies the EU's budgetary procedure. The Council and the European Parliament have joint responsibility for deciding the EU Budget on the basis of proposals from the Commission. The IIA sets out the way in which the three institutions will exercise their responsibilities 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.8 The Own Resources Decision lays down three sources of EU revenue, or 'Own Resources':

- customs duties, including those on agricultural products, in respect of trade with non-member countries and levies on sugar production within the Union. These are collectively known as "Traditional Own Resources" (TOR).
- contributions based on VAT: Essentially, the VAT resource is the amount yielded by applying a notional rate of 1% to a hypothetical harmonised VAT base, assuming

[58] Inter-institutional Agreement of 6 May 1999 between the European Parliament, the Council and the Commission on budgetary discipline and improvement of the budgetary procedure: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:31999Y0618(02)
[59] COUNCIL REGULATION (EU, EURATOM) No 1311/2013 of 2 December 2013 laying down the multiannual financial framework for the years 2014-2020: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32013R1311

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 base is capped at 50% of the member state's GNI. A call-up rate is applied to produce a member states' VAT-based contribution. This is currently 0.3%, except otherwise noted in the Own Resources Decision.

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

Sterling figures

A.9 The figures referred to in pounds sterling for 2009-15 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[60]. The 2016 Euro figures have been converted into Sterling using the Sterling/Euro exchange rate on 31 December 2015, namely £1=€1.3625 (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.

UK rebate

A.10 The UK's GNI-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 its receipts from the EU Budget, 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 only financed by TOR and VAT-based contributions
- the rebate is deducted from the UK's GNI-based contribution a year in arrears, e.g. the rebate in 2015 relates to UK payments and receipts in 2014
- since 2011 the UK's contributions to non-agricultural expenditure in member states that have acceded to the EU in or after 2004 are not abated. This reflects the agreement by the UK government in 2005 to "disapply" the UK rebate on non-agricultural expenditure in new member states

A.10.1 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, 2007 and 2014.

[60] 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
The annual average rate for 2014 is £1 = €1.240977
The annual average rate for 2015 is £1 = €1.377415

A.10.2 The Commission is directly and solely responsible for calculating the UK's rebate. It calculates the rebate on the basis of a forecast of contributions to the EU Budget and the UK's receipts from it. This is subsequently corrected in the light of outturn figures.

A.10.3 Corrections may be made for up to three years after the year in respect of which the rebate relates, with a final calculation then being made in the fourth year, e.g. a final calculation of the rebate in respect of 2015 will take place in 2019.

A.10.4 The effect of the rebate is to reduce the amount of the UK's monthly 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 2014 and the figures in the European Commission's EU Budget 2014 Financial Report

B.1 As set out in Chapter 3, paragraph 3.9, there is a difference between the UK government's figures for the cash flow outturn for the UK's net contribution for 2014 and the figures in the European Commission's EU Budget 2014 Financial Report. An explanation for this difference is set out in Table B.1, Table B.2 and paragraphs B.3 to B.4.

B.2 When converted at the average exchange rate for 2014 of £1= €1.240977, the figures on cash flow outturn for the UK's net contribution for 2014 in the European Commission's EU Budget 2014 Financial Report break down as set out in Table B.1.

Table B.1: Cash flow outturn for the UK's net contribution for 2014 in the European Commission's EU Budget 2014 Financial Report

	(€ million)	(£ million)
UK gross contribution before rebate	20,138.6	16,228.0
UK rebate	-6,066.3	-4,888.3
UK receipts	-6,984.7	-5,628.4
UK net contribution	7,087.6	5,711.3

Source: European Commission's EU Budget 2014 Financial Report, HM Treasury calculations

B.3 The government's figure for the UK's net contribution in 2014 is £9,779 million.

B.4 A number of factors contribute to the difference between the two net contribution figures. The probable main causes for the difference are as follows:

- the UK figure includes only transactions between the EU Budget and the UK public sector, whereas the European Commission's figures include receipts paid direct to the UK private sector. It is estimated that this accounted for around £1,045 million of the difference in 2014;
- the UK's outturn figure is based on cash flow within the calendar year, whereas the European Commission figures attempt to match transactions to a particular EU Budget. When reconciling there may be other factors such as the exchange rate that can lead to differences between the outturns;
- Amending Budgets No. 7/2013 to 9/2013 were adopted very near the end of 2013 which meant that associated changes were not implemented until 2014. The result of which leads to the government's figures being some £477 million higher than if the Amending Budget changes had been implemented in 2013; and
- Amending Budget Nos. 2/2014 to 7/2014 was adopted very near the end of 2014 which meant that associated changes were not implemented until 2015. The result of which leads to the government's figures being some £1,247 million higher than if the Amending Budget changes had been implemented in 2014.

- the UK government outturn accrues the UK's adjustment in respect of the 2014 GNI and VAT adjustment, i.e. the outturn incorporates both the UK's gross adjustment and the repayments made to the UK made via subsequent amending budgets. The UK's rebate was also applied to our net adjustments, but the rebate paid to the UK is included in the overall rebate line for 2015, the same year that the net adjustment was actually paid following its deferral.

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 2014 with the figures in the European Commission's EU Budget 2014 Financial Report

	(£ million)
UK government outturn for 2014	9,779
Private sector receipts	-1,045
Late implementation, in January 2014, of Amending Budgets Nos. 7/2013, 8/2013 and 9/2013	-477
Late implementation, in February 2015, of Amending Budgets Nos. 2/2014 - 7/2014	-1,247
2014 surcharge accrual	-1,631
UK Cash-flow figure adjusted to reflect main differences compared to European Commission's figure	5,378
European Commission figure for 2014 outturn	5,711
Net difference due to other factors (e.g. exchange rate)	-334

Source: HM Treasury calculations and 2014 EU Budget Financial Report, European Commission

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 2010-2016 (€ million)

Appropriations	**Commitments**								**Payments**							
	2009	2010	2011	2012	2013	2014	2015	2016	2009	2010	2011	2012	2013	2014	2015	2016
1 Smart and Inclusive Growth	62,202	64,250	64,501	68,141	70,831	63,986	77,955	69,841	45,205	48,800	53,994	60,287	69,127	65,300	66,853	59,291
1a Competitiveness for Growth and Jobs	13,775	14,863	13,521	15,389	15,723	16,484	17,552	19,010	10,318	11,339	11,604	12,064	12,778	11,863	15,729	17,402
1b Economic, social and territorial cohesion	48,427	49,387	50,984	52,753	55,108	47,502	60,403	50,831	34,887	37,461	42,390	48,223	56,350	53,437	51,125	41,888
2 Sustainable Growth: natural resources	56,697	59,499	58,659	59,850	59,855	59,191	63,877	62,470	50,276	57,020	55,794	58,045	57,814	56,444	55,998	54,972
3 Security and Citizenship	2,152	1,754	2,098	2,753	2,362	2,172	2,522	4,292	2021	1,440	1,713	2,183	1,894	1,666	1,929	3,022
4 Global Europe	8,104	8,141	8,759	9,404	9,341	8,325	8,711	9,167	8,100	7,788	7,053	6,966	6,732	6,841	7,422	10,156
5 Administration	7,597	7,908	8,173	8,280	8,418	8,405	8,660	8,951	7,600	7,907	8,172	8,278	8,418	8,405	8,659	8,951
TOTAL	136,951	141,552	142,194	148,428	152,091	142,690	162,273	155,273	113,410	122,955	126,727	135,758	144,450	139,034	141,280	136,642

Notes:
1. 2009-15 includes all agreed Amending Budgets.
2. Column totals do not necessarily equal the sum of individual items due to rounding errors and spending not attributable to any heading.

Source:
Figures for 2009 to 2015 are taken from the European Commission's Reports on budgetary and financial management.
Figures for 2016 are taken from Amending Budget 6 for the 2016 Budget.
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 2010-2016 (£ million)

Appropriations	Commitments								Payments							
	2009	2010	2011	2012	2013	2014	2015	2016	2009	2010	2011	2012	2013	2014	2015	2016
1 Smart and Inclusive Growth	55,375	55,093	55,967	55,255	60,133	51,561	60,719	**51,260**	40,243	41,845	46,850	48,886	58,686	52,620	52,072	**43,517**
1a Competitiveness for Growth and Jobs	12,263	12,745	11,732	12,479	13,348	13,283	13,671	**13,952**	9,186	9,723	10,069	9,783	10,848	9,559	12,251	**12,772**
1b Economic, social and territorial cohesion	43,112	42,348	44,238	42,777	46,785	38,278	47,048	**37,307**	31,058	32,122	36,781	39,104	47,839	43,060	39,821	**30,744**
2 Sustainable Growth: natural resources	50,474	51,019	50,897	48,532	50,815	47,697	49,754	**45,850**	44,758	48,894	48,412	47,068	49,082	45,484	43,617	**40,347**
3 Security and Citizenship	1,916	1,504	1,820	2,232	2,005	1,750	1,964	**3,150**	1,799	1,235	1,486	1,770	1,608	1,342	1,502	**2,218**
4 Global Europe	7,215	6,981	7,600	7,626	7,930	6,708	6,785	**6,728**	7,211	6,678	6,120	5,649	5,715	5,513	5,782	**7,454**
5 Administration	6,763	6,781	7,092	6,714	7,147	6,773	6,745	**6,570**	6,766	6,780	7,091	6,713	7,147	6,773	6,744	**6,570**
TOTAL	**121,919**	**121,378**	**123,379**	**120,359**	**129,119**	**114,982**	**126,394**	**113,963**	100,962	105,432	109,959	110,085	122,632	112,036	110,043	**100,288**

Notes:
1. 2010-16 includes all agreed Amending Budgets.
2. Column totals do not necessarily equal the sum of individual items due to rounding errors and spending not attributable to any heading.

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 United Kingdom contributions to, rebate, and public sector receipts from the EU Budget

	€ million							£ million						
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
GROSS CONTRIBUTIONS														
Sugar levies	10	9	13	11	2	10	10	8	8	10	9	2	7	7
Customs Duties	2,503	2,554	2,703	2,557	2,775	3,192	3,347	2,146	2,216	2,192	2,171	2,236	2,318	2,456
VAT–based contributions	2,534	2,505	2,811	2,761	2,963	3,666	3,647	2,172	2,174	2,279	2,344	2,388	2,661	2,677
GNI-based contributions	12,465	12,588	14,012	15,899	15,539	19,288	16,154	10,689	10,922	11,362	13,497	12,521	14,003	11,856
VAT & GNI adjustments	212	42	-121	134	2,024	786	-	181	36	-98	114	1,631	571	-
United Kingdom rebate	-3,553	-3,623	-3,835	-4,328	-5,481	-6,768	-5,283	-3,047	-3,143	-3,110	-3,674	-4,416	-4,914	-3,878
Total Contributions	14,169	14,076	15,583	17,034	17,822	20,174	17,873	12,150	12,214	12,636	14,461	14,362	14,646	13,118
PUBLIC SECTOR RECEIPTS														
FEAGA	3,393	3,073	3,395	3,236	3,395	3,251	3,729	2,910	2,667	2,753	2,747	2,736	2,361	2,737
EAFRD	512	483	359	729	529	637	731	439	419	291	619	426	462	536
European Regional Development Fund	884	698	540	350	1,311	625	717	758	605	438	297	1,057	454	526
European Social Fund	751	448	721	290	331	780	894	644	389	585	246	266	566	656
Other Receipts	21	60	126	102	122	55	64	18	52	102	86	98	40	47
Total Receipts	5,560	4,762	5,141	4,707	5,688	5,348	6,135	4,768	4,132	4,169	3,996	4,583	3,883	4,503
Net Contributions	8,609	9,315	10,442	12,327	12,135	14,826	11,739	7,382	8,082	8,467	10,465	9,779	10,763	8,616

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.
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). Because of rounding, the column totals do not necessarily equal the sum of the individual items.
4. Receipts figures for 2016 are based on the Office for Budget Responsibility Forecast. All other figures are outturn.
5. The VAT and GNI adjustment figure for 2014 include the UK's net adjustment, i.e. the figure incorporates both the UK's gross adjustment and the repayments made to the UK made via subsequent amending budgets. The UK's rebate was also applied to our net adjustments, but the impact of our rebate is not shown in the VAT and GNI line.
6. For the 2014 adjustment, the rebate paid to the UK is included in the overall rebate line for 2015, the same year that the net adjustment was actually paid following its deferral.
7. For the 2015 adjustment, details were set out in a letter to the Parliamentary Scrutiny Committees: http://europeanmemoranda.cabinetoffice.gov.uk/files/2015/10/DOC211015-21102015124206.pdf.
8. Figures for the VAT and GNI adjustments outside 2014 refer to the gross adjustment, as in those years there were no specific amending budgets to make the repayments.

Source: Office for Budget Responsibility and HM Treasury

D Report on the use of EU funds in the UK

Background

D.1 This Annex is linked to, and has cross references with, Chapter 5 on the government strategy for using EU funds in the UK. As part of ongoing work to improve the accountability for, and transparency of, EU funds, this annex is produced in order to collate and present data from a variety of publications on the use of EU funds in the UK.

D.2 The publication of this Report strengthens Parliamentary scrutiny of the financial relationship between the EU and the UK government. It is compiled by working with the NAO, Paying Agencies and Managing Authorities. The Report draws 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.3 The government is committed to maintaining the greatest possible transparency on the use of EU funds at a consolidated level by publishing information such as this.

Responsibilities of the UK Parliament and devolved administrations

D.4 As highlighted in Chapter 5, in accordance with the devolution settlement, relations with the EU are the responsibility of Parliament and the 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.5 HM Treasury has assumed responsibility for developing the format of this report and for collating the financial data provided by Paying Agencies and Managing Authorities which it includes. Managing Authorities are the bodies which have responsibility for managing the payment of EU programme funds to final beneficiaries in the UK.

D.6 Paying agencies and 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 has not been invited to audit this report.

D.7 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.8 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 are the disbursement of Common Agricultural Policy Funds and the European Structural and Investment Funds, where the UK pays beneficiaries on behalf of the EU.

D.9 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.[61] 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)[62]

Management of EU funded schemes

D.10 The Treaty establishing the European Union provides the basic framework for the Budget of the EU. The Budget includes a number of separate funds, including the European Agricultural Guarantee Fund (EAGF), the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD and sometimes referred to as the second pillar of Common Agricultural Policy) and the European Maritime and Fisheries Fund (EMFF).

D.11 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.12 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.13 The Single Payment Scheme (SPS) was the main agricultural subsidy scheme in the EU, funded by the EAGF. It was replaced by the Basic Payment Scheme in January 2015.

D.14 Under EU Regulation 907/2014, each paying agency must have an internal audit service independent of the other departments that reports directly to the Head of the paying agency. Paying agencies are the bodies of a member state responsible for disseminating payments of EU funds to approved programmes, keeping accurate information on these payments and guaranteeing 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.15 The Certification Body for the agricultural funds are appointed external auditors that report on: whether the annual accounts of the paying agencies are in all material respects true, complete and accurate; that internal control procedures have operated satisfactorily; the legality and regularity of expenditure and; the assertions made in the annual Management Declarations made by the Heads of paying agencies. The Certification Body reports have confirmed that internal audit units in all the UK paying agencies operate to a high standard, although they have in turn highlighted issues that require appropriate remedial action to avoid disallowances.

[61] 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.

[62] 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.

(b) European Structural and Investment Funds

D.16 The European Structural and Investment Funds are the financial tools set up to implement cohesion policy in the EU, and include ERDF, ESF, EAFRD and EMFF. For more details on these programmes please refer to the Glossary of this document.

D.17 The Managing Authorities are responsible for the control of European Structural and Investment Fund expenditure. Working alongside each fund's Managing Authority, the fund's Certifying Authority ensures that all systems are subject to regular examination by the Audit Authority. The Audit Authority 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.18 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 C3 are reported on a cash basis.

D.19 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.20 The final settlement of claims by the EU may give rise to adjustments following the closure process or disallowances (see paragraphs D.34-D.36 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.21 This section of the document covers the expenditure on EU funded schemes between 2010-11 and 2015-16.

D.22 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.23 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.24 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.25 The Statement of Assets and Liabilities (Table D.2) shows those assets and liabilities that stem from cash flows, where, for example, 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.26 The Expenditure Statement (Table D.1) shows gross expenditure on EU-supported schemes from 2010-11 to 2015-16. After allowing for foreign exchange variations and adjustments to claims, the amount reimbursable by the EU (i.e. net expenditure) was £4.3 billion in 2010-11, £4.7 billion in 2011-12, £4.2 billion in 2012-13, £4.4 billion in 2013-14, £4.3 billion in 2014-15, and £3.2 billion in 2015-16, the balance being met by the UK Exchequer. Prior years have been restated where necessary to amend previously published figures in order to reflect the correction of errors, new information that has arisen or a change in accounting policy.

D.27 A breakdown of expenditure by scheme is provided in Tables D.3 to D.8.

D.28 In recognition of likely future funding adjustments, Managing Authorities made new provisions totalling £32.6 million in 2015-16, against claims for reimbursement from the EU. After allowing for the use of provisions following the crystallisation of adjustments, total provisions at 31 March 2016 amounted to £34.2 million, over £143.7 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.9 to D.14.

Expenditure Statement

Table D.1: Expenditure Statement
For the years ended 31 March 2011, 2012, 2013, 2014, 2015, and 2016 (prior years restated)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16*
	£000	£000	£000	£000	£000	£000
Gross expenditure on EU supported projects	4,397,505	4,773, 977	4,216,794	4,345,271	4,254,226	3,361,171
Provisions created in year	-75,006	-92,647	-34,850	-1,832	-21,459	-32,568
Provisions released in year	19,856	22,817	10,495	60,452	11,770	335
Realised forex gain/(loss)	-35,739	-23,617	114,930	2,019	-30,005	-12,012
Unrealised forex gain/(loss)	2,779	51,182	-102,488	-13,637	51,733	-163,305
Withdrawn from EU claim	-49,743	-18,063	-35,841	-8,036	1,171	2,858
Net expenditure reimbursable by the EU	4,259,652	4,713,649	4,169,040	4,384,237	4,267,436	3,156,479

*2014-15 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, 2014, 2015, and 2016 (prior years restated)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16*
	£000	£000	£000	£000	£000	£000
Assets						
Advances to beneficiaries	219,642	25,594	17,340	26,143	24,788	26,640
EU funds receivable	1,931,886	1,763,336	1,763,235	2,314,084	1,622,625	2,146,918
Other assets	1,798	254,299	207,990	258,436	281,893	484,815
	2,153,326	2,043,229	1,988,565	2,598,663	1,929,306	2,658,373
Liabilities						
EU funds paid on account	-1,938,419	-1,860,340	-997,802	-655,634	-530,013	438,265
Amounts payable to beneficiaries	-140,863	-183,401	-186,053	-148,459	-73,928	-328,505
Repayable to EU	-3,525	-2,697	-238,694	-543,684	-737,127	-685,287
Provision for disallowances	-177,886	-212,390	-214,681	-100,154	-5,585	-2,885
Other liabilities	-24,607	-66,734	285	517	517	-34,180
	-2,285,300	-2,325,562	-1,636,945	-1,447,414	-1,346,136	-612,592
Net Assets / (Liabilities)	-131,974	-282,333	351,620	1,151,249	583,170	2,045,781

* 2015-16 balances include the latest available information. Some Managing Authority returns are based on un-audited annual accounts

Accounting policies

Basis of preparation

D.29 This report has been prepared by collating the relevant transactions and balances as recorded by the Managing Authorities in their financial statements. Their financial statements have been 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.30 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 by Managing Authorities. 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.31 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.

D.32 Foreign exchange gains and losses are realised where there are variations in exchange rates between payments incurred and reimbursements. For example, for ERDF, ESF and EMFF, there is often an exchange rate difference due to the lag between the date when EU funding is paid out by the Managing Authority and the date when this payment is subsequently checked and registered by the Certifying authority, on which basis the EU reimburses the expenditure incurred. 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.33 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 (restated)

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

Table D.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)	11,333	105,101	-1,338	-166	114,930
Total withdrawn from EU claim (restated)	-666	-100,252	-2,075	505	-102,488
Net expenditure reimbursable by EU	3,220,895	325,903	600,851	57,232	4,204,881

Table D.6: Analysis of Net Expenditure by EU Scheme 2013-14 (restated)

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	**£000**	**£000**	**£000**	**£000**
Gross expenditure in the United Kingdom	3,356,609	347,699	589,193	51,770	**4,345,271**
Total disallowances provided for (restated)	-1,190	0	0	-642	**-1,832**
Total disallowances released (restated)	59,686	0	0	766	**60,452**
Total foreign exchange gains/(losses) (restated)	3,931	-2,059	-15,061	1,571	**-11,618**
Total withdrawn from EU claim (restated)	0	0	-7,012	-1,024	**-8,036**
Net expenditure reimbursable by EU	**3,419,036**	**345,640**	**567,120**	**52,441**	**4,384,237**

Table D.7: Analysis of Net Expenditure by EU Scheme 2014-15 (restated)

	Agricultural Funding		European Social Fund		European Regional Development Fund		Other		Total	
	England £000	DAs £000	England £000	DAs £000	England £000	DAs £000	England £000	DAs £000	England £000	DAs £000
Gross expenditure in the United Kingdom	2,047,918	1,062,112	304,154	100,116	461,803	232,840	32,491	12,792	**2,846,366**	**1,407,860**
Total disallowances provided for (restated)	-18,123	-3,336	0	0	0	0	0	0	**-18,123**	**-3,336**
Total disallowances released (restated)	9,498	1,154	0	0	0	0	1,118	0	**10,616**	**1,154**
Total foreign exchange gains/(losses) (restated)	-408	-240	21,326	2,992	-8,939	6,547	372	78	**12,351**	**9,377**
Total withdrawn from EU claim (restated)	0	0	0	-27	6,057	-4,746	-113	0	**5,944**	**-4,773**
Net expenditure reimbursable by EU	**2,038,885**	**1,059,690**	**325,480**	**103,081**	**458,921**	**234,641**	**33,868**	**12,870**	**2,857,154**	**1,410,282**
Total Net expenditure reimbursable by EU	3,098,575		428,561		693,562		46,738		4,267,436	

Table D.8: Analysis of Net Expenditure by EU Scheme 2015-16*

	Agricultural Funding		European Social Fund		European Regional Development Fund		Other		Total	
	England £000	DAs £000	England £000	DAs £000	England £000	DAs £000	England £000	DAs £000	England £000	DAs £000
Gross expenditure in the United Kingdom	1,694,956	495,815	516,839	102,543	299,781	169,221	71,882	10,134	**2,583,458**	**777,713**
Total disallowances provided for	-17,224	-1,012	0	-14,332	0	0	0	0	**-17,224**	**-15,344**
Total disallowances released	0	0	0	0	0	0	335	0	**335**	**0**
Total foreign exchange gains/(losses)	1,939	1,851	-4,879	-5,422	1,909	-172,838	2,123	0	**1,092**	**-176,409**
Total withdrawn from EU claim	0	0	0	-1,562	6,854	-1,616	-818	0	**6,036**	**-3,178**
Net expenditure reimbursable by EU	1,679,671	496,654	511,960	81,227	308,544	-5,233	73,522	10,134	2,573,697	582,782
Total Net expenditure reimbursable by EU	2,176,325		593,187		303,311		83,656		3,156,479	

***2015-16 balances include the latest available information. Some Managing Authority returns are based on un-audited annual accounts**

Provisions for future financial corrections (disallowances)

D.34 As previously stated in Chapter 5, disallowances are financial corrections imposed by the Commission on member states 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.35 The European Commission may identify erroneous payments or deficiencies in the administration of schemes, and consequently can disallow expenditure. In the case of perceived systematic deficiencies, the Commission can impose flat-rate disallowances at the rate of 2%, 3%, 5%, 7% or 10% (or higher in some circumstances) 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.36 As set out in Chapter 5, a significant portion of provisions in 2015-16 related to agricultural policy funding – largely due to the size of the fund and the complexity of the regulations. There was also some disallowances relating to ESF. The overall provisions for future financial corrections relating to Agricultural funding have decreased as at the balance sheet date of the 31 March 2016. Annex D sets out historical information on provisions for corrections.

Table D.9: 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.10: 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.11: 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.12: Provisions for future financial corrections 2013-14 (restated)

	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	-15,623	-2,238	-214,680
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	-2,319	-1,880	-100,154

Table D.13: Provisions for future financial corrections 2014-15 (restated)

	Agricultural Funding		European Social Fund		European Regional Development Fund		Other		Total	
	England	DAs	England	DAs	England	DAs	England	DAs	England	DAs
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
As at 1 April 2014	-83,829	-12,050	0	0	0	-2,319	-1,880	0	-85,709	-14,369
Created during the year	-18,123	-3,336	0	0	0	0	0	0	-18,123	-3,336
Released in year	9,498	1,154	0	0	0	0	1,118	0	10,616	1,154
Utilised	27,941	7,536	0	0	0	856	0	0	27,941	8,392
As at 31 March 2015	-64,513	-6,696	0	0	0	-1,463	-762	0	-65,275	-8,159
Total as at 31 March 2015	-71,209		0		-1,463		-762		-73,434	

Table D.14: Provisions for future financial corrections 2015-16

	Agricultural Funding		European Social Fund		European Regional Development Fund		Other		Total	
	England	DAs	England	DAs	England	DAs	England	DAs	England	DAs
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
As at 1 April 2015	-64,513	0	0	0	0	-1,198	-632	0	-65,145	-1,198
Created during the year	-17,224	-1,012	0	-14,332	0	0	0	0	-17,224	-15,344
Released in year	0	0	0	0	0	0	335	0	335	0
Utilised	64,099	0	0	0	0	0	297	0	64,396	0
As at 31 March 2016	-17,638	-1,012	0	-14,332	0	-1,198	0	0	-17,638	-16,542
Total as at 31 March 2016	-18,650		-14,332		-1,198		0		-34,180	

Research programme grant receipts

D.37 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 and, following the establishment of the European Fund for Strategic Investments, has an overall Budget of €74.8 billion (£58.3 billion) (excluding the Euratom programme).

D.38 The UK government does not manage any of the Horizon 2020 funding, which is awarded directly to programme participants.

D.39 Horizon 2020 activities are split into three main areas: Excellent science, Industrial leadership and Societal challenges.

D.40 The Department for Business, Energy and Industrial Strategy released the latest statistics on UK participation in Horizon 2020 in December 2016[63] which shows that, as of September 2016, UK organisations have been awarded a total of €2.6 billion (£1.9 billion), which accounts for 15.6% of the EU funding so far awarded under Horizon 2020 (excluding Euratom). These receipts are not included in the above tables, which provide data on public sector receipts only.

[63] https://www.gov.uk/government/statistics/uks-participation-in-horizon-2020-september-2016

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This document can be downloaded from www.gov.uk

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