HM Treasury

European Union Finances 2015:

statement on the 2015 EU Budget and measures to counter fraud and financial mismanagement

Cm 9167

December 2015

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

December 2015

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Contents

1 Introduction

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

1.2 This statement is the thirty fifth in the series and describes the EU Budget for 2015, as adopted. It then sets out details of the United Kingdom's gross and net contributions to the EU Budget over the calendar years 2009 to 2014 (together with an estimate for 2015) and over the financial years 2009-10 to 2014-15 (together with estimates for 2015-16 to 2020-21). Details of recent developments in EU financial management and the fight against fraud affecting EU funds are also provided.

2 Expenditure

2.1 The EU Annual Budget is negotiated beneath the ceilings set in the Multi-Annual Financial Framework (MFF). The current MFF covers the period 2014-2020. It was agreed in a deal between the Prime Minister and other EU leaders in 2013, which achieved a real terms cut in the payment ceilings for the first time. The MFF for 2014-20 sets the ceiling for the 2015 EU Annual Budget.

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

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

The Prime Minister was clear that, when member states are demonstrating greater fiscal discipline domestically, we should not be spending more through the EU. Negotiations concluded with leaders agreeing to an unprecedented real-terms cut in the budget payment limit to €908 billion for the seven year period (in 2011 prices). That is €80 billion lower than the original proposal made by the European Commission and €35 billion lower than the deal agreed by the last government in 2005 for the previous period 2007-13. Under the deal agreed in February 2013, the EU's seven-year Budget will cost less than 1 per cent of the EU's gross national income for the first time in its history.

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

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

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

The 2015 EU Budget is the second annual budget under the 2014-2020 MFF and is evidence of the fiscal restraint which the deal agreed by the Prime Minister is delivering.

The 2015 EU Budget

2.2 The EU financial year runs from 1 January to 31 December, whereas the UK's runs from 6 April to 5 April. The 2015 EU Budget was agreed under the Italian Presidency of the EU in the second half of 2014. Negotiations began in June 2014, when the Commission proposed a draft EU Budget for 2014. This proposed a total of €142.1 billion (£110.7 billion)[1] in EU spending (payments appropriations)[2]. The Council agreed amendments to this draft Budget in September

[1] 2015: £1 = €1.283862. This is the 31 December 2014 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 2015.

[2] European Commission press release: http://europa.eu/rapid/press-release_IP-14-665_en.htm

2014, proposing to reduce the Commission's proposal to €140.0 billion (£109.0 billion)[3]. In October 2014, the European Parliament provided its position, which would have set the level of EU spending in 2014 to €146.4 billion (£114.0 billion)[4].

2.3 Following a process of conciliation between the Council and European Parliament the 2014 EU Budget was formally agreed. The adopted 2015 EU Budget provides for payment appropriations of €141.2 billion (£110.0 billion), equivalent to 1.0 per cent of EU GNI[5]. The payment appropriations for each of the main EU Budget headings are shown in Chart 2.A.

2.4 Throughout negotiations the UK consistently called for budgetary restraint at EU level and abstained on the adopted Budget.

2.5 Table 2.A shows the various stages of the negotiations during 2015.

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

2.7 Following a series of budget amendments – in year changes to expenditure and revenue in the adopted EU Budget – an additional €66 million (£52 million) payment appropriations were added to the adopted 2015 EU Budget. This left a final 2015 EU Budget of €141.3 billion (£110.0 billion). Further details on budget amendments and the final 2015 EU Budget can be found in Box 2.B.

Box 2.B: Budget amendments and the final 2015 EU Budget

The final 2015 EU Budget of €141.3 billion in payments is well within the 2015 payments ceiling agreed by the Prime Minister's MFF deal of €142.0 billion. It represents a cash and real terms cut to the 2013 EU Budget, in the last year of the last MFF, which was €144.5 billion[6].

Table 2.A shows payment appropriations for the adopted 2015 EU Budget. This is the original 2015 EU Budget which was formally agreed by the Council and European Parliament in December 2014. Budget amendments are any mid-year changes to expenditure or revenue proposed by the Commission.

Table 2.A also shows the final agreed 2015 EU Budget. This includes all of the budget amendments which have been approved by the Council and European Parliament. In total these add €66 million in payments to the 2015 EU Budget.

The final 2015 EU Budget will be referred to in the text, used in tables and displayed in charts throughout this document, unless stated otherwise.

[3] European Council press release: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/144587.pdf
[4] European Parliament press release: http://www.euractiv.com/sections/euro-finance/european-parliament-seeks-expand-2015-budget-2-billion-euros-309451
[5] Council figures on 2015 budget: http://www.consilium.europa.eu/en/policies/eu-annual-budget/eu-budget-2015/. Official Journal of the European Union: Definitive adoption (EU, Euratom) 2015/339 of the European Union's general budget for the financial year 2015.
[6] European Commission Financial Report 2013: http://ec.europa.eu/budget/financialreport/2013/management/index_en.html

Table 2.A: 2015 EU Budget

€ million

Payment appropriations	Financial perspective ceiling	Commission draft 2015 EU Budget	Council position	European Parliament position	Adopted 2015 EU Budget	Final 2015 EU Budget[1]	Final 2014 EU Budget[2]
1. Smart and Inclusive Growth		67,185	65,630	70, 854	66,923	66,853	65,300
1a. Competitiveness and Growth for Jobs		*15,583*	*14,248*	*15,893*	*15,798*	*15,729*	*11,863*
1b. Economic, Social and Territorial Cohesion		*51,602*	*51,382*	*54,960*	*51,125*	*51,125*	*53,437*
2. Sustainable Growth: Natural Resources		56,907	56,762	56,955	55,999	55,998	56,444
3. Security and Citizenship		1,881	1,853	1,920	1,860	1,929	1,666
4. Global Europe		7,327	6,943	7,512	7,422	7,422	6,841
5. Administration		8,612	8,585	8,672	8,659	8,659	8,405
Total payment appropriations	141,901	142,137	139,997	146,417	141,214	141,280	139,034

[1] Includes agreed Amending Budgets 1-8
[2] Includes agreed Amending Budgets 1-7

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

Sources:
Final 2014 and 2015 figures available in Draft Amending Budget 8 for the 2015 budget.
http://ec.europa.eu/budget/library/biblio/documents/2015/DAB/dab8_2015_annex_en.pdf
Commission, Council and adopted budget figures available in Council documents and press releases referenced above.

2.8 Details of the levels of payments in the adopted 2015 EU Budget are as follows[1]:

- **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 €66.9 billion (£52.1 billion) for 2015, an increase of 2.4 per cent compared with Budget 2014.

  Payments towards research, learning, and innovation (Heading 1a) were set at €15.7 billion (£12.3 billion), a 32.6 per cent increase compared to 2014. Payments toward fostering regional growth and employment (Heading 1b) were set at €51.1 billion (£39.8 billion). This was a 4.3 per cent reduction compared to 2014.

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

  Payments in this area were set at €56.0 billion (£43.6 billion) in the 2015 Budget, a 0.8 per cent reduction compared to 2014.

- **Heading 3: Security and Citizenship**. Expenditure in this area includes immigration, migration, security, and fundamental rights and justice.

  Payments for Heading 3 overall in 2014, excluding those associated with the European Union Solidarity Fund, were set at €1.9 billion (£1.5 billion), a 15.8 per cent increase compared to 2014.

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

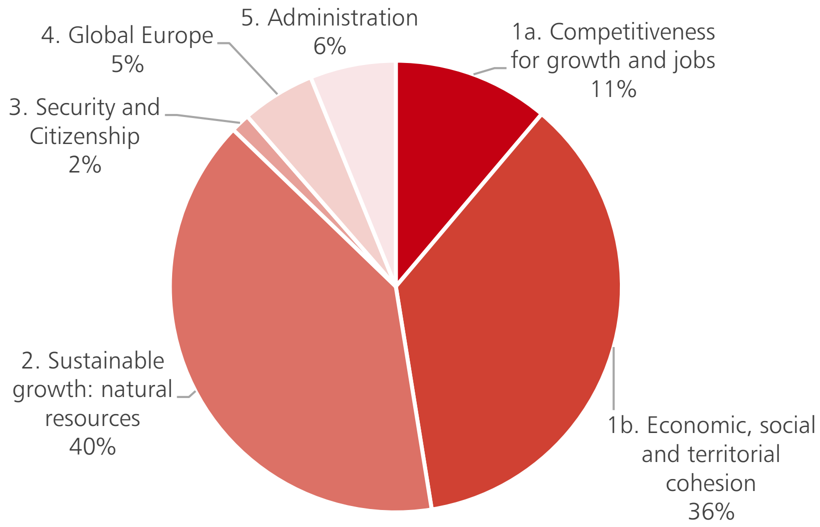
  Payments in 2015 for Heading 4 were set at €7.4 billion (£5.8 billion). This is an increase of 8.5 per cent compared to 2014.

- **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 2015 under Heading 5 have been set at €8.7 billion (£6.7 billion), a 3.0 per cent increase compared to 2014.

[1] Comparison between 2015 and 2014 final budgets in Draft Amending Budget 8 for the 2015 budget. http://ec.europa.eu/budget/library/biblio/documents/2015/DAB/dab8_2015_annex_en.pdf

Chart 2.A: 2015 EU Budget – payment appropriations by Budget heading



Source: Council document '2015 Budgetary Procedure - Evolution of European Union Expenditure by Financial Framework Heading (Programme breakdown)' and Draft Amending Budget 8 of the 2015 budget.

Box 2.C: Commitments in the 2015 Budget

The EU budget for payments appropriations determines the amount that the UK and other member states must contribute to the EU each year. Alongside this, the annual budget process also agrees a budget for commitments appropriations, which are defined by the Commission as "legal pledges to provide finance, provided that certain conditions are fulfilled"[a].

The 2014-2020 MFF Regulation, agreed by all member states in 2013, sets out annual commitments ceilings for each EU budget heading. The annual ceilings for headings 1b and 2 were determined largely by member states' national allocations, agreed as part of the 2013 MFF deal.

Member states are responsible for designing plans to implement and manage national programmes for each European Structural and Investment (ESI) Fund, for example the European Regional Development Fund (ERDF) or the European Agricultural Fund for Rural Development (EAFRD). These plans, covering the entire MFF period, are subject to a process of approval by the Commission.

As a result of the late agreement on the 2014-2020 MFF, the process for agreeing these plans could not start until May 2014 in some cases. Consequently, a significant number of programmes under each Fund could not be adopted in 2014. However, as was the case in previous MFF periods, it was anticipated that not all programmes would be approved in the MFF's first year. Article 19 of the MFF Regulation enabled programmes that could not be adopted in 2014 to be approved subsequently, and for unused 2014 commitments that would have funded these programmes to be transferred to later years.

In May, the Council unanimously agreed to enact Article 19, resulting in an expenditure neutral re-profiling of annual MFF commitment ceilings for the years 2014, 2015, 2016 and 2017. The overall ceiling for commitments for the current MFF remains unchanged, and payments are unaffected in any way.

Based on the adjustment of the annual commitment ceiling for 2015 in accordance with Article 19, the 2015 budget was amended (in Draft Amending Budget 2) in order to transfer into the 2015 budget a proportion of 2014 commitments for programmes that could not adopted in 2014. This increased the 2015 commitments budget from €145,322 million to €161,800 million, with a corresponding reduction to the 2014 budget. The payment budget was unchanged from this particular revision.

Table: Commitment Reprofiling (current prices)[b]

€ billion	2014	2015	2016	2017	2018	2019	2020	Total
Original commitment ceilings	142.5	146.5	150.2	154.4	158.4	163.0	167.6	**1,082.6**
Article 19 changes	-21.1	+16.5	+4.5	+0.1	0	0	0	**0**
Revised commitment ceilings	121.4	163.0	154.7	154.5	158.4	163.0	167.6	**1,082.6**

[a] http://ec.europa.eu/budget/explained/budg_system/fin_fwk0713/fin_fwk0713_en.cfm
[b] Proposal for a Council Regulation reprofiling the annual MFF commitment ceilings: http://ec.europa.eu/budget/mff/lib/COM-2015-15/COM_2015_15_en.pdf

3 Contributions to the EU Budget

EU revenue

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

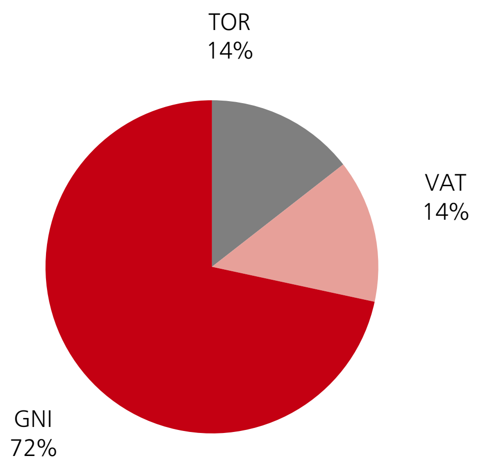
3.2 Chart 3.A shows a breakdown of the estimates of how the 2015 EU Budget will be financed. The key points to note in terms of the UK's contribution are[1]:

- TOR in 2015 is estimated to be €18.8 billion (£14.6 billion), with the UK's share estimated at 18.0 per cent. In 2014, outturn revenue from this source was €16.4 billion (£13.2 billion), of which the UK's share was 16.6 per cent;
- VAT-based contributions in the 2015 EU Budget are €18.0 billion (£14.0 billion), with the UK's share estimated as 18.5 per cent. In 2014, total VAT-based contributions were €17.7 billion (£14.3 billion), of which the UK's share was 16.2 per cent;
- GNI-based contributions in the 2015 EU Budget are €92.9 billion (£72.4 billion), of which the UK's share is 16.4 per cent. In 2014, GNI-based contributions were €94.6 billion (£76.2 billion) with a UK share of 15.0 per cent; and
- the estimated value of the UK's rebate in 2015 is €5.6 billion (£4.4 billion) compared with €5.9 billion (£4.7 billion) in the 2014 EU Budget. A detailed explanation of how the UK rebate is calculated, and how it operates, can be found in the glossary.

3.3 Chart 3.B shows each member states' share of financing the 2015 EU Budget, after taking account of the UK rebate.

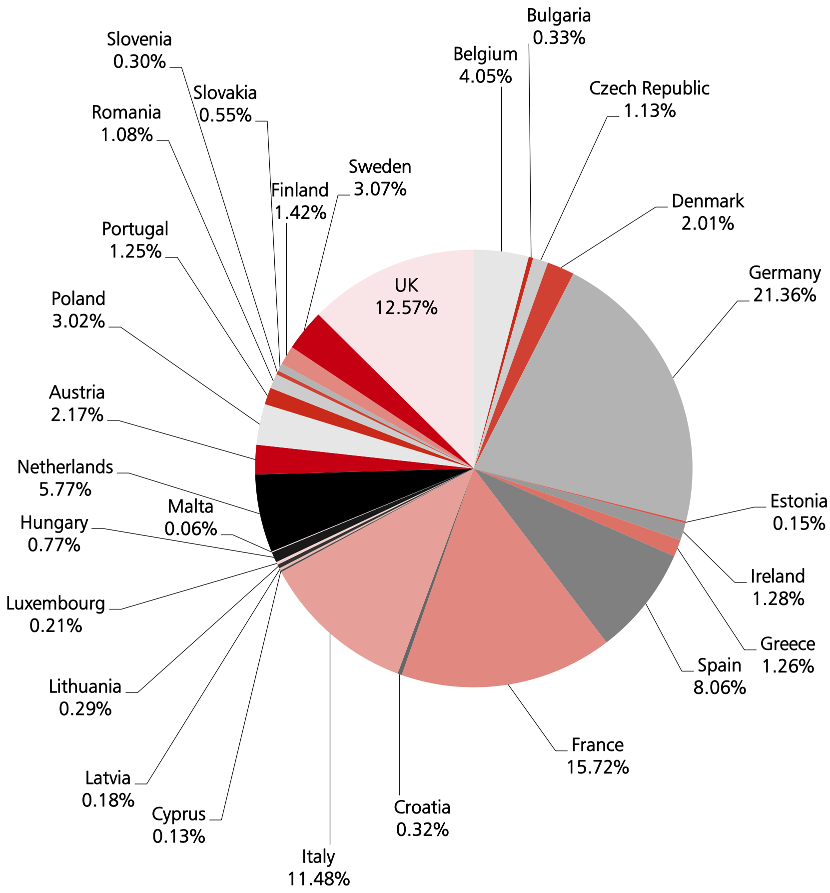
[1] For VAT-based contributions, GNI-based contributions and the UK Rebate, data is sourced from the European Commission's Draft Amending Budget 8 to the 2015 budget. TOR is sourced from EU Budget 2014 Financial Report, published by the European Commission.

Chart 3.A: 2015 EU Budget revenue



Source: European Commission's Draft Amending Budget 8 to the 2015 budget

Chart 3.B: EU Budget revenue 2015 – percentage share after rebates by member states



Source: European Commission's Draft Amending Budget 8 to the 2015 budget

The UK's net contribution

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

3.5 Table 3.A shows the UK's gross payments, rebate, public sector receipts, and net contributions to the EU Budget for calendar years 2009 to 2015. The figures for 2015 are estimates; those for earlier years are outturn.

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

							£ million
	2009 Outturn	**2010 Outturn**	**2011 Outturn**	**2012 Outturn**	**2013 Outturn**	**2014 Outturn**	**2015 Estimated Outturn[1]**
Gross Payments[2]	14,129	15,197	15,357	15,746	18,135	18,777	17,779
Less: UK rebate	-5,392	-3,047	-3,143	-3,110	-3,674	-4,416	-4,861
Less: Public sector receipts	-4,401	-4,768	-4,132	-4,169	-3,996	-4,576	-4,445
Net contributions to EU Budget[3]	**4,336**	**7,382**	**8,082**	**8,467**	**10,465**	**9,785**	**8,473**

[1] The figures for 2015 are based on the Office for Budget Responsibility Forecast Supplementary Table (2.24) and converted to sterling. It has been adjusted to take into account the late adoption of amending budget 8 to the 2015 annual budget. Those for earlier years are outturns.

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

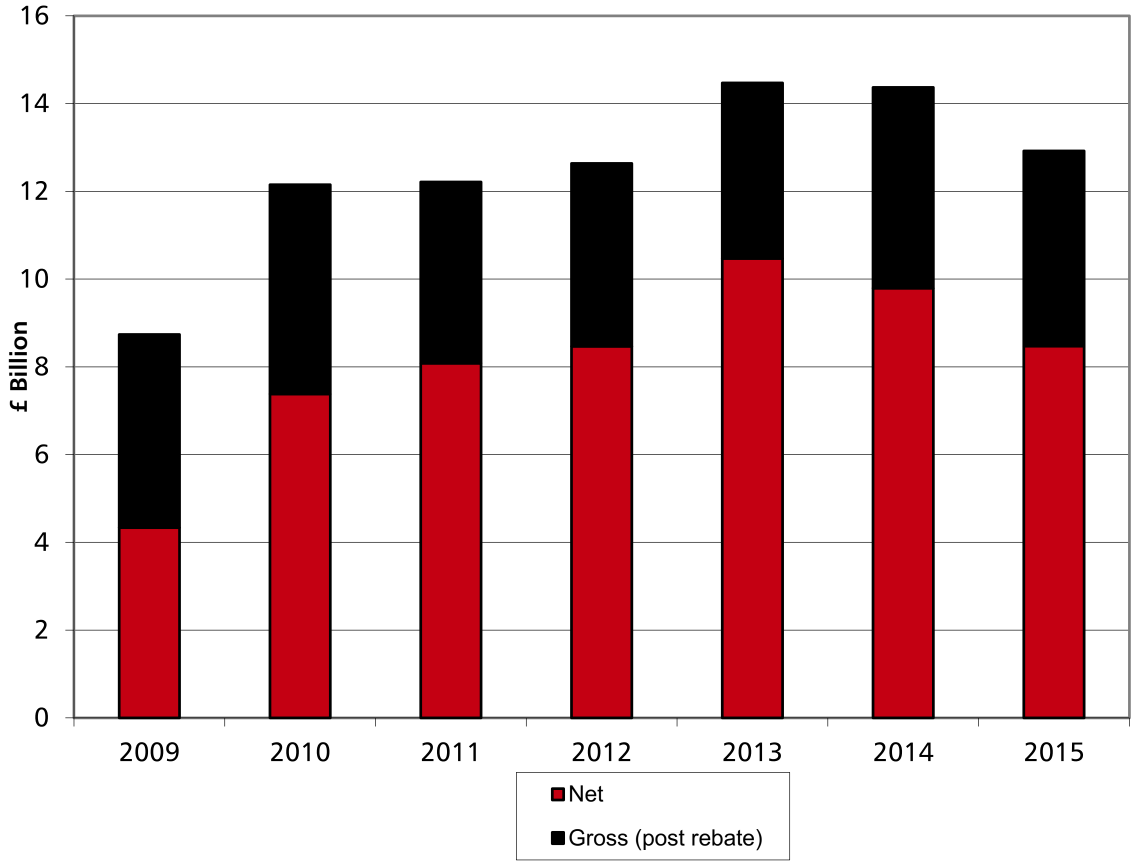
[3] Due to rounding, totals may not exactly correspond to the sum of individual items.

Source: Office for Budget Responsibility and HM Treasury

3.6 UK public sector receipts in 2015, mainly from the European Agricultural Guarantee (EAGF), European Agricultural Fund for Rural Development (EAFRD) and the Social and Regional Development Funds, are expected to be around £4.4 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 the public sector's accounts. It is estimated that in 2013, these receipts were worth £1.4 billion. These payments are not included in Tables 3.A or 3.C-F, which provide data on public sector receipts only.

Chart 3.C: Profile of UK gross post rebate and net contributions to the EU Annual Budget for the years 2009-2015 (£ billion)



Note: 2015 is an Office for Budget Responsibility forecast converted to sterling (for conversion see glossary)

Source: HM Treasury and the Office for Budget Responsibility

3.8 The UK's 2015 net contribution to the EU Budget is forecast at £8.5 billion; the outturn in 2014 was £9.8 billion.

3.9 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. The main reason for this difference is that the Commission's numbers take into account all of the UK's receipts, including those that go directly to the UK private sector, such as funding for research paid directly to UK universities. The OBR numbers capture only those receipts that pass through the UK public sector.

3.10 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)

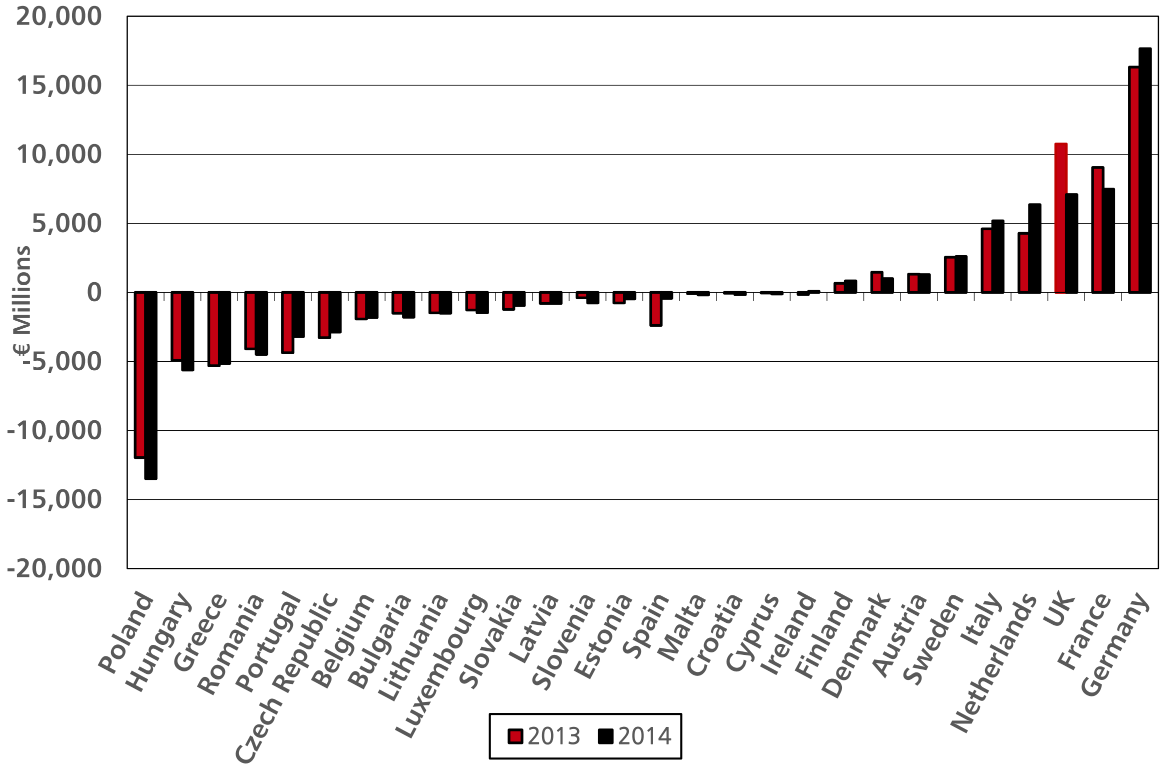
				£ million / € billion
	Gross contributions post rebate (€ billion)	Total public and private receipts (€ billion)	Net contribution (€ billion)	Net contribution (£ billion)
2010	14.66	6.75	7.91	6.79
2011	13.83	6.57	7.26	6.30
2012	16.18	6.93	9.24	7.50
2013	17.07	6.31	10.76	9.13
2014	14.07	6.98	7.09	5.71

Source: European Commission, EU Budget 2014 Financial Report

3.11 In accordance with a commitment to the PAC, the technical annex of this document explains the main differences in respect of calendar year 2013 between the government's figures and those which can be derived from the European Commission's EU Budget 2013 Financial Report.

3.12 Chart 3.D shows how the UK's net position compares with those of the other member states in 2013 and 2014. In 2014, the UK was one of ten net contributors to the EU Budget.

Chart 3.D: Net contributions of member states in 2013 and 2014 (€ million)



Source: Based on data published in EU Budget 2013 Financial Report and EU Budget 2014 Financial Report, published by the European Commission

Financial year transactions

3.13 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 2009-10 and 2014-15.

3.14 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 payments, rebate and receipts (financial years – outturn)

						£ million
	2009-10 Outturn	**2010-11 Outturn**	**2011-12 Outturn**	**2012-13 Outturn**	**2013-14 Outturn**	**2014-15 Outturn[3]**
Gross Payments[1]	13,733	15,593	15,700	16,871	18,208	18,220
Less: UK rebate	-4,218	-2,678	-3,516	-3,172	-4,130	-4,811
Less: Public sector receipts	-4,788	-3,998	-4,771	-4,022	-3,856	-4,615
Net contributions to EU Budget[2]	**4,727**	**8,917**	**7,413**	**9,678**	**10,223**	**8,794**

[1] Gross payment figures include Traditional Own Resources payments at 75 per cent. The remaining 25 per cent is retained by the UK to cover the costs of administering collection on behalf of the EU.
[2] Due to rounding, totals may not exactly correspond to the sum of individual items.
[3] The 2014-15 outturn figure is fully consistent with the Office for Budget Responsibility's November 2015 estimate.

Source: Office for Budget Responsibility and HM Treasury calculations

3.15 The Office for Budget Responsibility forecasts the UK's contributions to the EU Annual Budget in future years. Table 3.D provides a breakdown of the Office for Budget Responsibility's latest forecast for UK transactions with the EU over the period 2015-16 to 2020-21. Tables 3.E (outturn figures) and 3.F (forecasts) provide a more detailed breakdown of UK receipts by major programmes from the EU Budget over the periods 2009-10 to 2014-15 (outturn figures) and 2015-16 to 2020-21 (forecasts). The assumptions underlying the forecasts for these years can be found in the November 2015 Economic and Fiscal Outlook[2].

Table 3.D: Gross payments, rebate and receipts (financial years – forecast)

						£ million
	2015-16 Forecast	**2016-17 Forecast**	**2017-18 Forecast**	**2018-19 Forecast**	**2019-20 Forecast**	**2020-21 Forecast**
Gross Payments[1]	19,073	18,984	18,031	18,950	19,877	20,651
Less: UK rebate	-4,229	-5,035	-5,282	-4,900	-5,234	-5,512
Less: Public sector receipts	-4,057	-4,237	-4,386	-4,709	-4,999	-5,196
Net contributions to EU Budget[2]	**10,787**	**9,711**	**8,363**	**9,341**	**9,643**	**9,943**

[1] Gross payment figures include Traditional Own Resources payments at 75 per cent. The remaining 25 per cent is retained by the UK to cover the costs of administering collection on behalf of the EU.
[2] Due to rounding, totals may not exactly correspond to the sum of individual items.
[3] Figures in this table are fully consistent with the Office for Budget Responsibility's November 2015 forecast.

Source: Office for Budget Responsibility Forecast

[2] http://budgetresponsibility.org.uk/economic-fiscal-outlook-november-2015/

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

						£ million
	2009-10 Outturn	2010-11 Outturn	2011-12 Outturn	2012-13 Outturn	2013-14 Outturn	2014-15 Outturn
EAGF	2,967	2,541	2,973	2,956	2,602	2,379
EAFRD	310	362	462	298	638	473
Social Fund	571	687	552	366	249	368
Regional Development Fund	919	383	709	327	275	1,304
Other Receipts	20	26	74	75	92	91
Total	**4,788**	**3,998**	**4,771**	**4,022**	**3,856**	**4,615**

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

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

						£ million
	2015-16 Forecast	2016-17 Forecast	2017-18 Forecast	2018-19 Forecast	2019-20 Forecast	2020-21 Forecast
EAGF	2,359	2,428	2,553	2,765	2,904	3,006
EAFRD	611	529	536	568	613	641
Social Fund	120	206	209	221	238	249
Regional Development Fund	867	982	996	1,056	1,138	1,190
Other Receipts	101	91	93	98	106	111
Total	**4,057**	**4,237**	**4,386**	**4,709**	**4,999**	**5,196**

Source: Office for Budget Responsibility

Box 3.A: New Own Resources Decision

The arrangements for the financing of the annual budget of the EU are set out in the Own Resources Decision (ORD). As part of the 2014-2020 MFF, member states reached a political agreement on the new ORD. The new ORD, which was agreed unanimously by member states in 2014, formally confirms the financing aspects of the 2014-2020 MFF deal.

The new ORD will broadly maintain the existing financing system, which means: no new types of member state contributions; no new EU-wide taxes to finance EU spending; and crucially, no change to the UK rebate.

All member states must approve the new ORD before it can come into force. The current expectation is that all member states will have approved the new ORD by mid-2016. Until all member states have done so, the current ORD remains in force.

The European Union (Finance) Act 2015, which received Royal Assent on 21 July 2015, gives UK approval to the new ORD.

When the new ORD has been adopted by all member states, retrospective adjustments will apply from 2014. The OBR has already reflected this in their forecast from December 2013 to correct for the timing of implementation[3].

[3] Office for Budget Responsibility Economic and Fiscal Outlook December 2013, paragraph 4.113

4 Fraud management and anti-fraud issues

4.1 The Commission's annual 'Fight Against Fraud' report details the actions taken by the Commission and the member states to counter fraud affecting EU funds. The report also highlights areas that are most at risk of fraud and in need of targeted action at both EU and national level. The European Court of Auditors (ECA) also produces an annual report 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.

4.2 This chapter provides an overview of the annual reports published in 2014 and concerning the 2013 EU budget.

European Court of Auditors' annual report on the 2013 EU Budget

4.3 The European Court of Auditors (ECA) is the EU's independent auditor and is responsible for assessing the accounts and payments of EU Institutions. The ECA is required to provide the European Parliament and Council with an annual report on the implementation of the EU Budget[1]. This report assesses: the fairness and accuracy of the EU budget accounts; and the regularity of the underlying transactions. The report also contains targeted recommendations to address identified errors and weaknesses. The report includes a Statement of Assurance (usually referred to as the 'DAS', from the French '*Déclaration d'Assurance*') which confirms whether the EU accounts are complete and accurate, and whether income and expenditure have been managed in accordance with all contractual and legal obligations. The report forms an essential element in the European Parliament's oversight of the Commission's management of the EU Budget.

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

4.5 The ECA's report on the 2013 EU budget was published on 5 November 2014. 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.[1]

ECA's Statement of Assurance

4.6 In the ECA's opinion, the 2013 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 2013 accounts to be legal and regular in all material aspects, and concluded that commitments in all policy groups were also free from material error.

[1] The European Court of Auditors' annual report on the 2013 EU Budget can be found at: http://www.eca.europa.eu/Lists/ECADocuments/AR13/AR13_EN.pdf

4.8 However, the ECA found that payments (EU spending) continued to be affected by material error with an estimated error rate of 4.7 per cent for the 2013 EU Budget as a whole, a small decrease from 4.8 per cent for the 2012 budget.[2]

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

4.10 In light of these findings, for the twentieth 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 - Revenue:** This covers the revenue, through which the EU finances its budget. For 2013 the ECA concluded that member states' payments of TOR, VAT and GNI based resources and other revenue were all free from material error and the error rate for transactions tested was found to be nil. The examined supervisory and control systems for VAT bases and TOR were found to be effective but the report revealed weaknesses in terms of inclusion of data on the non-observed economy, Greek GNI data, and member state customs checks. The ECA recommended that the Commission should:
    - promote harmonisation between member states of their methodologies for compilation of data on the non-observed economy;
    - put in place and closely monitor a detailed action plan with clear milestones to address the problems in the compilation of Greece's national accounts; and
    - establish minimum standards for the checks by member states' customs authorities to allow better targeting of risky importers.
- **Chapter 3 – Agriculture, Market and Direct Support:** This covers assessments of the European Agricultural Guarantee Fund (EAGF), one of the two main instruments of the Common Agricultural Policy (CAP) of the EU. The ECA concludes that payments for this policy area were affected by material error as a whole; with the most likely error rate estimated at 3.6 per cent. Based on the sample of member states assessed, the ECA concluded that national management and control systems were partially effective. The ECA recommended that the Commission and member states should ensure that:
    - the necessary measures are taken to ensure that the IACS (integrated administration and control system) is used to its full potential, for instance by ensuring that the eligibility and size of agricultural parcels are correctly assessed and recorded; and
    - the Commission monitor the remedial action with regard to deficiencies identified in EU aid to producer groups in Poland.
- **Chapter 4 - Rural Development, environment, fisheries and health:** This chapter also covers expenditure on rural development, environment, fisheries and health but also

[2] 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 per cent and 0.3 per cent respectively. Under the new methodology the 2013 error rate is 4.5 per cent. 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.

spending on environment and climate action, health and consumer protection. The ECA concluded that payments covered by this chapter were affected by material error, with the most likely error rate estimated at 6.7 per cent. The reason for most errors was non-compliance with eligibility requirements, in particular those concerning agri-environment commitments, specific requirements for investment projects and procurement rules. The ECA recommended that the Commission should:

- ensure that member states carry out their existing administrative checks better, by using all relevant information available to the paying agencies. This has the potential to detect and correct the majority of errors; and
- work with member states to ensure that action plans to address the high estimated error rate in rural development include all regions and measures, particularly investment measures, and take the Commission's and ECA's audit findings into account.

- Chapter 5 - Regional Policy, energy and transport: Regional policy accounts for approximately 96 per cent of spending within this chapter and is mostly implemented through the European Regional Development Fund (ERDF) and the Cohesion Fund (CF), with its management shared with member states. The ECA concluded that payments covered by this chapter were affected by material error, with the most likely error rate estimated at 6.9 per cent. The ECA found serious errors in public procurement, accounting for 39 per cent of the estimated error rate. The combined estimated contract value for the 122 public procurement procedures examined amounted to €4.2 billion (£3.6 billion). The ECA recommended that the Commission should:
    - require from member states, in their management declarations, an explicit confirmation regarding the effectiveness of the first-level checks performed by the managing and certifying authorities;
    - carry out an in-depth assessment, as required by the Financial Regulation, of the persistent problem with the first-level checks by authorities in the member states during the 2007–13 programming period;
    - analyse the reasons for the high frequency of noncompliance with EU state aid rules; and
    - reduce the persistent delays in disbursement of EU funds through financial engineering instruments
- Chapter 6 - Employment and Social Affairs: The European Social Fund (ESF) is the main tool for the implementation of employment and social policy and accounted for approximately 98 per cent of expenditure in this policy area for 2013. The ESF funds investments in human capital through training and other employment measures. The ECA concluded that payments covered by this chapter were affected by material error, with the most likely error rate estimated at 3.1 per cent. The ECA recommended that the Commission should:
    - encourage member states to strengthen the checks related to public procurement rules, non-project related costs and projects without EU added value;
    - ensure that the member states address the issue of charging personnel costs at higher rates for EU projects compared to those financed by national funds; and
    - ensure that member states have considered all simplification possibilities allowed by the 2014–20 European Structural and Investment Funds regulations.

- **Chapter 7 - External relations, aid and enlargement:** This chapter covers payments in the fields of external relations, development and humanitarian aid, and measures for EU candidate and accession countries. Development projects are dispersed throughout more than 150 countries, and the implementing organisations vary greatly both in size and experience. To be eligible for EU support, projects are required to comply with conditions set out in specific financing agreements as well as other rules covering, for example, tendering and contract award procedures. Spending is implemented directly by Commission Directorates-General, either from their headquarters in Brussels, by EU delegations in recipient countries or jointly with international organisations. The ECA found that payments covered by this chapter were affected by material error, with the most likely error rate estimated at 2.6 per cent. The ECA recommended that the Commission should:
    - ensure the instructions to staff state that clearings should be made only on the basis of incurred expenditure and not be based on their own estimates. The Commission has already agreed to amend its clearance procedure accordingly.
- **Chapter 8 - Research and other internal policies:** The main component of this spending area is research and innovation projects, with €7.7 billion (£6.5 billion) of payments in 2013. Other internal policies cover spending on a range of policy objectives, including education and culture, security, migration and measures to combat the effects of the financial crisis. The majority of the expenditure is managed directly by the Commission. The ECA concluded that payments were affected by material error, with the most likely error rate estimated at 4.6 per cent. The ECA recommended that the Commission should:
    - provide timely, consistent and clear guidance to beneficiaries and authorities in the member states about the eligibility rules and control arrangements for the new 2014–20 programmes for research (Horizon 2020) and other internal policies; and
    - make its control activities more risk driven, focusing checks on high-risk beneficiaries (for example entities with less experience of European funding) and reducing the burden of checks on less risky beneficiaries.
- **Chapter 9 - Administrative and other expenditure:** This covers the administrative and other expenditure of EU institutions and bodies. Expenditure in this area includes human resources (salaries, allowances and pensions), which account for 60 per cent of the spending in this policy group, in addition to expenditure on buildings, equipment, energy, communications and information technology, which accounts for the remainder. The results of the ECA audits of the EU agencies and other decentralised bodies are reported in specific annual reports, which are published separately. The ECA found that examined supervisory and control systems of the policy group were effective. It concluded that payments were not affected by material error, but noted repeated errors in the payment of salaries and allowances by the Commission and the European External Action Service (EEAS), as well as procurement weaknesses. The ECA recommended that:
    - the Commission and the EEAS should take further steps to ensure that staff records affecting payment of salaries and allowances are up to date; and
    - the EEAS should provide support and guidance to EU delegations in relation to procurement procedures.
- **Chapter 10 - Getting results from the EU Budget:** This chapter focused on performance and results, which the ECA assesses in line with the principles of sound financial

management: economy, efficiency and effectiveness. ECA performance audits involve assessment of inputs, outputs, results and long-term impacts. The ECA recommended that the Commission should:

- rationalise its reporting framework for performance on the next occasion that the Financial Regulation is reviewed;
- ensure that the evaluation report presents a summary account that brings together all the information available on the progress towards Europe 2020 targets; and
- further develop its performance management and reporting system to allow the Commission to take responsibility for sound financial management as well as the EU budget's contribution to policy achievements.

Council recommendation to the European Parliament on Discharge

4.12 On 17 February 2015, the Council welcomed both the ECA's Statement of Assurance on the implementation of the EU budget for the financial year 2013 and the ECA's analysis of the audit findings and conclusions. The Council again stressed the importance of independent audits carried out at EU level and strongly supported the work of and the audit findings presented by the ECA.

4.13 However, the Council remained concerned that payments from the EU budget continued to be materially affected by error, that supervisory and control systems for payments remained only partially effective, and that the objective of obtaining a positive DAS on the underlying transactions was again not achieved.

4.14 In its conclusions responding to the ECA's Statement of Assurance, the Council made a number of recommendations[3]. The Council:

- insisted on increasing the effectiveness of the control systems, while ensuring the balance between costs and benefits of the controls. Moreover, the Council called on the Commission to continue to apply both representative testing and risk-based checks;
- called upon the Commission and member states to undertake further actions aiming at strengthening the quality of the management and control systems and making them more efficient, including the first level verifications;
- called upon the Commission to continue executing in full its supervisory role and to provide continuous guidance to member states, in order to ensure that spending is in line with the rules and provides maximum protection of the EU budget, thus reducing the error rate;
- noted with concern that eligibility errors contributed the most to the overall estimated error rate in 2013, and urged the Commission to identify the root causes of the reported irregularities, to focus on preventive measures, and to implement corrective actions where necessary;
- encouraged member states to simplify and streamline national rules, so that the so-called "gold-plating" did not add complexity and further administrative burden. The Council stressed that any simplification of the national public procurement rules

[3] Council recommendations on the 2013 discharge, 30 January 2015: http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%205303%202015%20ADD%201

should aim at limiting errors, whilst fully ensuring the protection of the Union's financial interests.

- invited the Commission to ensure through its technical assistance that the recently updated guidelines on public procurement were disseminated and understood by all relevant actors.
- invited the Commission and member states to take full advantage of this opportunity when implementing newly adopted programmes by using more extensively the variety of simplification measures that they offer and that were given a positive assessment by the Court.
- emphasised that the balance between risk of error and cost of control and audit, as well as the potential additional administrative burden has to be carefully evaluated, focusing on better controls rather than on more controls.
- reiterated the need for the Commission to provide appropriate guidance and training to member states and to beneficiaries in applying such measures, while helping them to fulfil their role in pursuing the policy objectives.
- called on the Commission to continue, where appropriate, the implementation of all available corrective measures.
- stressed the need to evaluate the reasons for the low absorption rate of Financial Engineering Instruments and thereby strengthen the monitoring of payment flows in order to avoid any unnecessary retention of funds in these instruments. In addition, the Council called upon the Commission to analyse the added value of such instruments and to make available the results of this analysis.
- called on the Commission to continue monitoring the evolution of the amounts of RAL[4], and to settle or decommit them in a timely manner and in line with the relevant rules.
- urged the Commission to provide, on a regular basis, clear, exhaustive, transparent and timely information about the needs for payment appropriations and the availability of funds in the annual budget, as well as to prepare a reliable forecast of the future payment requirements and budgetary priorities.
- called on the Commission to examine further possibilities for improving the Synthesis Report[5], in particular concerning the amounts at risk.
- noted the Court's work in assessing the results achieved from the EU budget and considered that progress still needed to be made to establish a proper performance framework within the EU.

4.15 On 17 February 2015, the Netherlands, Sweden and the UK voted against the Council's recommendation on discharge for the fourth consecutive year in order to highlight the need for further improvements in budgetary management. The Netherlands, Sweden, and the UK also

[4] 'RAL' (from the French 'reste à liquider') refers to the level of outstanding commitments in the EU budget (agreed commitments that have not yet translated into payments).

[5] The Commission's annual 'Synthesis Report' is the final stage in the Commission's annual planning, programming and reporting cycle after the close of the financial year, in which the Commission presents an evaluation of EU financial management drawing on the Annual Activity Reports produced by Commission services. The report for 2014 can be viewed here: http://ec.europa.eu/atwork/pdf/synthesis_report__2014_en.pdf

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. [6]

European Parliament decision on Discharge

4.16 The European Parliament takes a final decision on whether to discharge the EU Budget. It does so having considered the ECA's report, the Commission's response, and the recommendation of the Council. On 29 April 2015, the European Parliament formally approved the discharge of the EU budget accounts for 2013 and issued their Resolution.

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. An Explanatory Memorandum on the Commission's analysis of member state responses to the ECA's findings was sent to both Houses of Parliament in March 2015. In all cases where weaknesses were identified, the relevant UK authorities engaged with the Commission and the ECA and, where appropriate, took steps to strengthen national systems and processes. Below is an example of two such cases.

Agriculture

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

UK response: The UK Authorities are aware of the specific concerns raised in the 2013 Annual Report in respect of the accuracy of the Land Parcel Identification Systems (LPIS). These matters are being addressed and proactive action has been taken to update the LPIS using a variety of sources, including customer notifications, on the ground inspection findings, ortho-imagery and Ordnance Survey mapping data.

Regional policy, energy and transport

Audit finding: Weaknesses found in the Commission's validation of error rates reported by audit authorities.

UK response: Where weaknesses were identified, error rates were revised accordingly. Statistical sampling has now been adopted in line with sampling guidance, in order to reduce the risk of errors in future.

Fight against Fraud Report 2013

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

4.19 As in previous years, the report summarises and evaluates measures taken by the Commission and member states to counter fraud and irregularities in relation to EU budget funds. The report also includes both the latest information on irregularities detected by control

[6] See Annex 1 of Council recommendations on the discharge, issued on 13 February 2015: http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%205303%202015%20REV%201

systems and suspected fraud (with a distinction made between fraud and other irregularities), and on measures taken to deal with them. The 2013 report, published on 17 July 2014, covers[7]:

- **Results of irregularities** relating to areas where member states implement the Budget (agricultural policy, cohesion policy and pre-accession funds); in the collection of the EU's Traditional Own Resources (TOR); and expenditure directly managed by the Commission;
- **Recovery** of irregular amounts in 2013;
- **Overview of anti-fraud policies** implemented in 2013 and of the new initiatives taken to ensure effective protection of the financial interests of the EU.

4.20 The report is accompanied by six Commission Staff Working Papers: (i) Implementation of Article 325 TFEU by the member states in 2013; (ii) Statistical Evaluation of Irregularities reported for 2013; (iii) Follow-up recommendations to the Commission report on the protection of the EU's financial interests - Fight Against Fraud 2013; (iv) Methodology regarding the statistical evaluation of reported irregularities for 2013; (v) Annual overview with information on the results of the Hercule II programme in 2012; and (vi) Implementation of the Commission Anti-Fraud Strategy (CAFS).

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

Irregularities reported as fraudulent

4.22 In 2013, a total of 1,609 irregularities were reported as fraudulent (suspected and established fraud), of which 976 were related to expenditure and 633 were related to revenue (for example, customs fraud). The estimated financial impact of irregularities reported as fraudulent was €309 million (£262 million) in 2013. Unlike in previous years, the Commission found that Agricultural policy was the sector with the highest number of irregularities reported as fraudulent, accounting for 60 per cent of the total irregularities reported in EU Budget expenditure. However, Cohesion policy accounted for the highest value of suspected fraudulent transactions, at 63 per cent of the total amounts involved.

4.23 The report notes that of the irregularities reported as fraudulent in the last five years, 8 per cent have been established as fraud.

Other irregularities (not reported as fraudulent)

4.24 In 2013, a total of 14,170 non-fraudulent irregularities were reported. The estimated financial impact of these irregularities was €1.8 billion (£1.6 billion). The Commission attributes irregularities to the fact that EU institutions and national services have paid more attention to, and exercised greater control over, the management of EU funds.

4.25 The report considers the actions taken by the Commission in 2013 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 €3.4 billion (£2.9 billion). The report also highlights the Commission's anti-fraud legislative proposals in relation to the PIF Directive (from the French for 'protection of financial interests') on fighting crimes against the EU's financial interests; and the related European Public Prosecutor's Office (EPPO) Directive.

[7] The Commission's Fight against Fraud report 2013, published on 17 July 2014, can be found at: http://ec.europa.eu/anti_fraud/documents/reports-commission/2013/1_act_part1_en.pdf

4.26 The report's recommendations included for all member states to:

- quickly designate or establish their Anti-Fraud Coordination Service (AFCOS) by the end of 2014 if not already in place;
- take into account the recommendations included in the anti-corruption reports and the best practices highlighted there;
- swiftly complete the legislative work started and to adopt the pending proposals (the PIF Directive and EPPO Regulation).
- review national control strategies to ensure that well-targeted, risk-based customs controls are in place to make it possible to effectively detect fraudulent import operations;
- step up work to ensure timely reporting on and updating of fraud and irregularity cases; and,
- correctly implement the EU's anti-fraud rules, based on carefully prepared and up-to-date fraud risk assessments, and supported by adequate IT tools that will help to better target checks.

Fourteenth Report of the European Anti-Fraud Office (1 January to 31 December 2013)

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

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

4.29 Every year, the OLAF Director publishes a report on the activities of the Office over the previous year. The fourteenth report, issued on 29 April 2014, gave a summary of OLAF's achievements in 2013, supported by statistics and case studies.[8]

4.30 The following statistics were reported for 2013:

- 1,294 items of information were received in 2013 from public and private sources (information from the private sector accounted for two thirds of the total received);
- 287 new cases were opened in 2013, of which 253 were investigations while 34 were opened as cases for which OLAF took a coordination role;
- 415 cases were closed during the year, with 353 recommendations for action issued;
- The duration of the investigation and coordination cases was an average of 21.8 months;

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

- Structural funds accounted for the highest number of investigations; and
- €117 million (£99 million) was recovered in total as a result of OLAF's investigations, with the highest amounts recorded for customs fraud (€77 million, or £65 million), Structural Funds (€34 million, or £29 million) and Agricultural Funds (€3 million, or £3 million).

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

- overall EU strategy against the illicit tobacco trade;
- implementation of the Commission's Anti-Fraud Strategy; and
- actions to ensure data protection compliance.

4.32 In 2013, OLAF operated on an administrative budget of €57 million (£49 million). On 31 December 2013, almost 80 per cent of OLAF's total staff (350 out of 440) were working on activities related to OLAF's investigative functions.

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[1]. 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 2014-2020 programming period, the Common Provisions Regulation sets out the guiding principles for administering the funds. At present, these funds are:

- the European Regional Development Fund (ERDF), which promotes economic and social cohesion within the EU through the reduction of imbalances between regions or social groups;
- the European Social Fund (ESF), which promotes the EU's employment objectives by providing financial assistance for vocational training, retraining and job creation schemes;
- the European Agricultural Fund for Rural Development (EAFRD), which contributes to the structural reform of the agriculture sector and to the development of rural areas;
- the European Maritime and Fisheries Fund (EMFF), the specific fund for the structural reform of the fisheries sector; and
- the Cohesion Fund (CF), which supports member states with GDP that is less than 90% of the European average, financing environmental and trans-European transport projects.

[1] 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

Flexibility Instrument

A.4 The Flexibility Instrument was established under paragraph 24 of the 1999 Inter-institutional Agreement[2], 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"[3]. 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 per cent to a hypothetical harmonised VAT base, assuming an identical range of goods and services in each member state. The VAT base is calculated on the basis of a notional harmonised rate and reflects finally taxed expenditure across the EU. The base is capped at 50 per cent of a member state's GNI. A call-up rate is applied to produce a member states' VAT-based

[2] 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)

[3] 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

contribution. This is currently 0.3 per cent, 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[4]. The 2015 euro figures have been converted into sterling using the sterling/euro exchange rate on 31 December 2014, namely £1=€1.283862 (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 per cent 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; and
- 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.

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.

[4] The annual average rate for 2009 is £1 = €1.123291
The annual average rate for 2010 is £1 = €1.166206
The annual average rate for 2011 is £1 = €1.152493
The annual average rate for 2012 is £1 = €1.233211
The annual average rate for 2013 is £1 = €1.177910
The annual average rate for 2014 is £1 = €1.240977

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 2013 and the figures in the European Commission's EU Budget 2013 Financial Report

B.1 As set out in Chapter 3, paragraph 3.12, there is a difference between the UK government's figures for the cash flow outturn for the UK's net contribution for 2013 and the figures in the European Commission's EU Budget 2013 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 2013 of £1= €1.177910, the figures on cash flow outturn for the UK's net contribution for 2013 in the European Commission's EU Budget 2013 Financial Report break down as set out in Table B.1.

Table B.1: Cash flow outturn for the UK's net contribution for 2013 in the European Commission's EU Budget 2013 Financial Report

	(€ million)	(£ million)
UK gross contribution before rebate	21,398	18,166
UK rebate	-4.329	-3,676
UK receipts	-6,308	-5,355
UK net contribution	**10,760**	**9,135**

Source: European Commission's EU Budget 2013 Financial Report, HM Treasury calculations

B.3 The government's figure for the UK's net contribution in 2013 is £10,465 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 £1,360 million of the difference in 2013;
- the UK's outturn figure is based on cash flow within the calendar year, whereas 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 Budget No. 6/2012 was adopted very near to the end of 2012 meant that associated changes were not implemented until 2013. The result of which leads to the government's figures for 2013 being some £438 million higher than if the Amending Budget changes had been implemented in 2012; and
- Amending Budget No. 8/2013 was adopted very near the end of 2013 meant that associated changes were not implemented until 2014. The result of which leads to the government's figures being some £477 million lower than if the Amending Budget changes had been implemented in 2013.

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 2013 with the figures in the European Commission's EU Budget 2013 Financial Report

	(£ million)
UK government cash-flow outturn for 2013	10,465
Private sector receipts	-1,360
Late implementation, in 2013, of Amending Budget No. 6/2012	-438
Late implementation, in 2014, of Amending Budgets No. 8/2013	477
UK Cash-flow figure adjusted to reflect main differences compared to European Commission's figure	**9,144**
European Commission figure for 2013 outturn	**9,135**
Net difference due to other factors (such as exchange rate)	**9**

Source: Derived from European Commission's EU Budget 2013 Financial Report, Derived from Office for Budget Responsibility Forecast, HM Treasury calculations

C Tables

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

Table C.1: Budgeted Appropriations on the EU Budget Commitments and Payments by Heading (€ million)

Appropriations	Commitments							Payments						
	2009	2010	2011	2012	2013	2014	2015	2009	2010	2011	2012	2013	2014	2015
1 Smart and Inclusive Growth	62,202	64,250	64,501	68,141	70,831	63,986	**77,955**	45,205	48,800	53,994	60,287	69,127	65,300	66,853
1a Competitiveness for Growth and Jobs	13,775	14,863	13,521	15,389	15,723	16,484	**17,552**	10,318	11,339	11,604	12,064	12,778	11,863	15,729
1b Economic, social and territorial cohesion	48,427	49,387	50,984	52,753	55,108	47,502	**60,403**	34,887	37,461	42,390	48,223	56,350	53,437	51,125
2 Sustainable Growth: natural resources	56,697	59,499	58,659	59,850	59,855	59,191	**63,877**	50,276	57,020	55,794	58,045	57,814	56,444	55,998
3 Security and Citizenship	2,152	1,754	2,098	2,753	2,362	2,172	**2,522**	2021	1,440	1,713	2,183	1,894	1,666	1,929
4 Global Europe	8,104	8,141	8,759	9,404	9,341	8,325	**8,711**	8,100	7,788	7,053	6,966	6,732	6,841	7,422
5 Administration	7,597	7,908	8,173	8,280	8,418	8,405	**8,660**	7,600	7,907	8,172	8,278	8,418	8,405	8,659
TOTAL	136,591	141,552	142,194	148,428	152,091	142,690[a]	162,273[b]	113,410	122,955	126,727	135,758	144,450	139,034	141,280

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.

a Although commitments for 2014 totalled €142.7 billion, in 2015 the commitments ceiling for 2014 was revised down by £21.1bn and the commitments ceilings for 2015, 2016 and 2017 were revised up by an equivalent amount (see Box 2.C for further details).
b Based on revised ceiling for 2015 (see Box 2.C for further details).

Source:
Figures for 2009 to 2014 are taken from the European Commission's Reports on budgetary and financial management.
Figures for 2015 are taken from Amending Budgets 7 and 8 for the 2015 Budget.
European Commission Budget website: http://eur-lex.europa.eu/Budget/www/index-en.htm

Table C.2: Budgeted Appropriations on the EU Budget Commitments and Payments by Heading (£ million)

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

[a] Although commitments for 2014 totalled €142.7 billion, €21.1 billion of these commitments were not made in 2014. In 2015 the commitments ceiling for 2014 was revised down by £21.1billion and the commitments ceilings for 2015, 2016 and 2017 were revised up by an equivalent amount (see Box 2.C for further details).

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: 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						
	2009	2010	2011	2012	2013	2014	2015	2009	2010	2011	2012	2013	2014	2015
GROSS CONTRIBUTIONS														
Sugar levies	225	10	9	13	11	2	13	200	8	8	10	9	2	10
Customs Duties	2,024	2,503	2,554	2,703	2,557	2,730	3,162	1,802	2,146	2,216	2,192	2,171	2,200	2,462
VAT–based contributions	1,947	2,534	2,505	2,811	2,761	2,963	3,193	1,733	2,172	2,174	2,279	2,344	2,388	2,487
GNI-based contributions	11,986	12,465	12,588	14,012	15,899	15,583	15,870	10,670	10,689	10,922	11,362	13,497	12,557	12,361
VAT & GNI adjustments	-311	212	42	-121	134	2,023	589	-277	181	36	-98	114	1,631	459
United Kingdom rebate	-6,057	-3,553	-3,623	-3,835	-4,328	-5,480	-6,241	-5,392	-3,047	-3,143	-3,110	-3,674	-4,416	-4,861
Total Contributions	9,814	14,169	14,076	15,583	17,034	17,821	16,586	8,737	12,150	12,214	12,636	14,461	14,361	12,918
PUBLIC SECTOR RECEIPTS														
EAGF	3,269	3,393	3,073	3,395	3,236	3,220	3,266	2,910	2,910	2,667	2,753	2,747	2,595	2,544
EAFRD	242	512	483	359	729	704	714	215	439	419	291	619	567	556
European Regional Development Fund	717	884	698	540	350	1,307	1,325	639	758	605	438	297	1,053	1,032
European Social Fund	684	751	448	721	290	326	278	609	644	389	585	246	263	217
Other Receipts	31	21	60	126	102	120	123	28	18	52	102	86	98	96
Total Receipts	4,943	5,560	4,762	5,141	4,707	5,679	5,707	4,401	4,768	4,132	4,169	3,996	4,576	4,445
Net Contributions	4,871	8,609	9,315	10,422	12,327	12,143	10,879	4,336	7,382	8,082	8,467	10,465	9,785	8,473

Notes:
1. For all years, the amounts for the UK's gross contribution in this table reflect payments made during the calendar year, not payments to particular EU Budgets. They differ from the figures for gross contributions in Table 2 in that these figures, drawn from European Commission documents, relate to payments to particular EU Budgets.
2. Prior to 2010, Sugar Levies row also includes figures for duties on agricultural products.
3. Euro figures in this table have been converted from sterling using the appropriate exchange rate (see glossary). Because of rounding, the column totals do not necessarily equal the sum of the individual items.
4. The figures for 2015 are based on the Office for Budget Responsibility forecast and HM Treasury calculations. Those for earlier years are outturn.
5. The VAT and GNI adjustment figures for 2014 and 2015 include the UK's net adjustment, i.e. they incorporate 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. We expect that the rebate will be paid to us via an amending budget in 2016. Separate to this adjustment, the VAT&GNI adjustments line also includes a VAT contribution paid in 2015 that related to previous years.
8. Figures for the VAT and GNI adjustments before 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 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 these annual reports strengthens Parliamentary scrutiny of the financial relationship between the EU and the UK government by working with the NAO, paying agencies and managing authorities to compile this report. 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 reports such as this.

Responsibilities of the UK Parliament and devolved administrations

D.4 In accordance with the devolution settlement, relations with the EU are the responsibility of the Parliament and government of the United Kingdom, as a member state. Responsibility for implementing EU obligations relating to devolved matters lies with the devolved administrations. The proper administration of EU Funds in Northern Ireland, Scotland and Wales is a matter for the relevant devolved administration. This report is prepared without prejudice to the devolution of responsibilities.

Preparation of the report

D.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 the 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 have not been invited to audit this interim 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 include 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.[1] The transactions are not reported as income and expenditure of the relevant managing authority; and
- the purchase of intervention stocks with UK funds which are accounted for in the financial statements of the Department for Environment, Food and Rural Affairs (DEFRA).[2]

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 Agricultural Fund for Rural Development (EAFRD), the European Regional Development Fund (ERDF) and the European Social Fund (ESF).

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 apply EU Regulations correctly 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) is 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 disallowance penalties.

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

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

(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 the European Regional Development Fund (ERDF) and the European Social Fund (ESF). For more details on these programmes please refer to the glossary of this document.

D.17 The managing authorities are responsible for the control of European Structural and Investment Fund expenditure ensure that all systems are subject to regular examination by internal audit. The internal audit results strengthen procedures during the implementation of programmes and provide assurance as to the accuracy, completeness and regularity of expenditure, certified to the Commission.

Timing of expenditure and the related EU funding

D.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 Tables 3.E and 3.F 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.33 to D.35 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 2014-15.

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 2014-15. After allowing for foreign exchange variations and adjustments to claims, the amount reimbursable by the EU was £4.3 billion in 2010-11, £4.7 billion in 2011-12, £4.2 billion in 2012-13, £4.4 billion in 2013-14, and £4.3 billion in 2014-15, 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 on in Tables D.3 to D.7.

D.28 In recognition of likely future funding adjustments, managing authorities made new provisions totalling £21 million in 2014-15, against claims for reimbursement from the EU. After allowing for the use of provisions following the crystallisation of adjustments, total provisions at 31 March 2015 amounted to £73 million, over £104.5 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.8 to D.12.

Expenditure Statement

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

	2010-11	2011-12	2012-13	2013-14	2014-15*
	£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
Provisions created in year	-75,006	-92,647	-34,850	-1,832	-21,459
Provisions released in year	19,856	22,817	10,495	60,452	11,770
Realised forex gain/(loss)	-35,739	-23,617	114,930	2,019	-30,005
Unrealised forex gain/(loss)	2,779	51,182	-102,488	-13,637	51,733
Withdrawn from EU claim	-49,743	-18,063	-35,841	-8,036	1,171
Net expenditure reimbursable by the EU	**4,259,652**	**4,713,649**	**4,169,040**	**4,384,237**	**4,267,436**

*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 and 2014 (prior years restated)

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

[a] 2014-15 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. Foreign exchange gains and losses are realised where there are variations in exchange rates between the date EU income is recognised by the managing authority and the date payment is received from the EU. Such gains and losses are recognised in the Expenditure Statement (Table D.1). Unrealised gains and losses arising from the revaluation of assets and liabilities at the exchange rate current at the balance sheet date, also reported in the Expenditure Statement, are reported in the accounts of managing authorities within the Statement of Changes in Taxpayers' Equity. Any hedging mechanisms used to mitigate the impact of foreign exchange losses are not included in this report as they do not impact on the amounts paid out on EU projects or the funding provided by the EU.

Disallowances provision and contingent liabilities

D.32 Probable disallowances arising from financial corrections are recognised in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. A provision is recognised where there is a past event – for example an ineligible payment or a failure to comply with the regulations governing a scheme – which will probably lead to the EU disallowing expenditure and not reimbursing the UK. Managing authorities are responsible for estimating the value of any provisions required.

Analysis of Net Expenditure by EU Scheme

Table D.3: Analysis of Net Expenditure by EU Scheme 2010-11

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

Table D.4: Analysis of Net Expenditure by EU Scheme 2011-12 (restated)

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

Table D.5: Analysis of Net Expenditure by EU Scheme 2012-13 (restated)

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
Gross expenditure in the United Kingdom	3,234,417	321,054	604,264	57,059	4,216,794
Total disallowances provided for (restated)	-34,616	0	0	-234	-34,850
Total disallowances released (restated)	10,427	0	0	68	10,495
Total foreign exchange gains/(losses) (restated)	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*

	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	-1,190	0	0	-642	**-1,832**
Total disallowances released	59,686	0	0	766	**60,452**
Total foreign exchange gains/(losses)	3,931	-2,059	-15,061	1,571	**-11,618**
Total withdrawn from EU claim	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**

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

Table D.7: Analysis of Net Expenditure by EU Scheme 2014-15*

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
Gross expenditure in the United Kingdom	3,110,030	404,270	694,643	45,283	**4,254,226**
Total disallowances provided for	-21,459	0	0	0	**-21,459**
Total disallowances released	10,652	0	0	1,118	**11,770**
Total foreign exchange gains/(losses)	-648	24,318	-2,392	450	**21,728**
Total withdrawn from EU claim	0	-27	1,311	-113	**1,171**
Net expenditure reimbursable by EU	**3,098,575**	**428,561**	**693,562**	**46,738**	**4,267,436**

*2014-15 balances include the latest available information. Some managing authority returns are based on un-audited annual accounts.

Provisions for future financial corrections (disallowances)

D.33 As previously stated, 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.34 The European Commission may identify erroneous payments or deficiencies in the administration of schemes, and consequently, they can disallow expenditure. In the case of perceived systematic deficiencies, the Commission can impose flat-rate disallowances at the rate of 2 per cent, 3 per cent, 5 per cent, 7 per cent or 10 per cent of annual expenditure, depending on the severity of the failings. The EU will not reimburse the UK for the expenditure incurred. The costs then fall on the Exchequer, unless the amount can be recovered from the beneficiary. The ultimate financial impact on the UK taxpayer will, however, be less than this, due to the operation of the rebate system. For more details on the rebate system please see the glossary of this document.

D.35 As demonstrated by the data below, the vast majority of provisions in 2014-15 related to Agricultural Policy Funding. The total provisions for disallowances created in-year have increased in 2014-15, however, overall provisions for future financial corrections have decreased as at the balance sheet date of the 31 March 2015.

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

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

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

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

Table D.10: Provisions for future financial corrections 2012-13 (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.11: 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.12: Provisions for future financial corrections 2014-15

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
	£000	£000	£000	£000	£000
As at 1 April 2014	-95,879	0	-2,319	-1,880	-100,078

	Agricultural Policy Funding	European Social Fund	European Regional Development Fund	Other	Total
Created during the year	-21,459	0	0	0	**-21,459**
Released in year	10,652	0	0	1,118	**11,770**
Utilised	35,477	0	856	0	**36,333**
As at 31 March 2015	**-71,209**	**0**	**-1,463**	**-762**	**-73,434**

Research programme grant receipts

D.36 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.37 The UK government does not manage any of the Horizon 2020 funding, which is awarded directly to programme participants.

D.38 Horizon 2020 activities are split into three main areas: Excellent science, Industrial leadership and Societal challenges.

D.39 The Commission's November 2015 update on signed grant agreement data shows that UK organisations overall have been awarded a maximum of €1.4 billion (£1.1 billion), which accounts for 15 per cent of the EU funding so far awarded under Horizon 2020 (excluding Euroatom). These receipts are not included in the above tables, which provide data on public sector receipts only.

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This document can be downloaded from www.gov.uk

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