HM Treasury

European Union Finances 2019:

Statement of the 2019 EU Budget and measures to counter fraud and financial mismanagement

CP 256

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Statement of the 2019 EU Budget and measures to counter fraud and financial mismanagement

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

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Chapter 1

Introduction

1.1 In 1980, following a recommendation by the Public Accounts Committee (PAC), the government agreed to present an annual statement (statement) to Parliament giving details of the Budget of the European Union (EU Budget). The UK left the EU on 31 January 2020, but the government has committed to continuing to report on payments in the interests of transparency.

1.2 This statement is the 39th in the series. First, it describes the EU Budget for 2019. It then sets out details, including some forecasts, of the United Kingdom's gross and net contributions to the EU Budget over the calendar years 2012 to 2019 and over the financial years 2013-14 to 2018-19. Details of recent developments in EU financial management and the fight against fraud affecting EU funds are also provided, as is an update on the UK's strategy for using EU funds and minimising disallowance.

1.3 Annex E provides an analysis of the financial settlement under the EU Withdrawal Agreement, including an updated estimate of the financial settlement and details of applicable assurance arrangements now that the UK has left the EU.

Chapter 2
Expenditure

2.1 The Multiannual Financial Framework (MFF) sets ceilings for each EU Annual Budget. The current MFF covers the period 2014-20. It was agreed in 2013 and achieved a real terms cut in the payment ceilings for the first time. The 2019 commitment appropriations ceiling was €164.1billion (£146.8 billion)[1] and the payment appropriations ceiling was €166.7 billion[2]. (£149.1 billion). Prescribed flexibilities available within the budgetary system enable proposals for the overall level of commitments to be higher than the relevant ceiling. Further information explaining the difference between payments and commitments appropriations can be found in the Glossary.

The 2019 EU Budget

2.2 The EU financial year runs from 1 January to 31 December. The 2019 EU Budget for commitment and payment appropriations was agreed under the Austrian Presidency of the EU[3] in the second half of 2018[4]. Negotiations began in May 2018, when the Commission proposed a draft EU Budget for 2019[5]. This proposed total commitment appropriations of €165.6 billion (£148.2 billion) and payment appropriations of €148.7 billion (£133.0 billion) in EU spending (nominal figures). The Commission amended its proposal in October 2018, on the basis of new information, such as updates to expenditure and revenue. This resulted in an updated draft EU Budget of €165.6 billion (£148.1 billion) in commitment appropriations and €148.6 billion (£132.9 billion)[6] in payments appropriations.

2.3 The Council adopted its position in July 2018, proposing to reduce the Commission's original proposal to €164.1 billion (£146.8 billion) in commitment

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[1] 2019: £1 = €1.117905 This is the 31 December 2018 exchange rate, which is the rate at which all UK VAT-based and GNI-based contributions, and the UK rebate, were converted to sterling throughout 2018.

[2] Draft general budget of the European Union for the financial year 2019: https://eurlex.europa.eu/budget/data/DB/2019/en/SEC00.pdf

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

[4] Deal reached on 2019 EU budget: https://ec.europa.eu/commission/presscorner/detail/en/IP_18_6381

[5] Commission proposes draft EU budget 2019: https://ec.europa.eu/commission/presscorner/detail/en/IP_18_3870

[6] Amending letter no.1 to the draft general budget 2019: https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/com-2018-709_2018_en.pdf

appropriations and €148.2 billion[7] (£132.5 billion) in payment appropriations. In October 2018, the European Parliament provided its position, which would have set the level of EU spending in 2019 to €166.3 billion (£148.8 billion) in commitment appropriations and €149.3 billion[8] (£133.6 billion) in payment appropriations.

2.4 In November, the conciliation process between the Council and European Parliament, ended without an agreement. The Commission therefore presented a second draft budget on 30 November, which would have set the level of EU spending in 2019 to €165.6 billion (£148.1 billion) in commitment appropriations and €148.2 billion (£133.6 billion) in payment appropriations.[9]

2.5 The Council and European Parliament reached agreement on 11 December.[10] The adopted 2019 EU Budget provided for commitment appropriations of €165.6 billion (£148.1 billion) and for payment appropriations of €148.2 billion (£133.6 billion).[11] The payment appropriations for each of the main EU Budget headings are shown in Table 2.A: 2019 EU Budget.

2.6 Throughout the negotiations, the UK worked constructively with other member states to ensure budgetary restraint. The UK believed the EU could still go further to cut lower priority spending from the adopted Budget. However, as progress was made, the UK recognised this by abstaining, rather than voting against, in the qualified majority vote for the adopted 2019 EU Budget.

2.7 Table 2.A also shows various stages of the negotiations during 2019. Figures for previous years' EU Budgets are provided for comparison in Annex C (Tables C.1 and C.2).

2.8 Following a series of budget amendments – in-year expenditure and revenue changes to the adopted EU Budget during the year of implementation – a total of €585 million of commitment appropriations and €295 million of payments appropriation were added to the adopted 2019 EU Budget, mainly due to mobilisation of the European Union Solidarity Fund, to respond to major natural disasters in Europe, such as those which took place in Romania, Italy and Austria in the course of 2019.

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7 *EU Budget 2019: Council sets out its position:* https://www.consilium.europa.eu/fr/press/press-releases/2018/09/04/2019-eu-budget-council-adopts-its-position/ *; Draft general budget of the European Union for the financial year 2019: Council position of 26 July 2018:* https://data.consilium.europa.eu/doc/document/ST-10826-2018-REV-1/en/pdf

8 *Council cannot accept EP amendments:* https://www.consilium.europa.eu/fr/press/press-releases/2018/10/24/2019-eu-budget-council-cannot-accept-ep-amendments/ *; European Parliament resolution of 25 October 2017 on the Council position on the draft general budget of the European Union for the financial year 2018:* https://www.europarl.europa.eu/doceo/document/TA-8-2017-0408_EN.html?redirect

9 *EU budget for 2019: Conciliation ends without agreement:* https://www.consilium.europa.eu/en/press/press-releases/2018/11/19/eu-budget-for-2019-conciliation-ends-without-agreement/ *; Second draft General Budget of the European Union for the financial year 2019* https://eur-lex.europa.eu/budget/data/DB2/2019/en/SEC00.pdf

10 *Council endorses agreement on EU budget for 2019:* https://www.consilium.europa.eu/en/press/press-releases/2018/12/11/council-endorses-agreement-on-eu-budget-for-2019/ *;*

11 *Definitive adoption of the European Union* Budget for the Financial Year 2019: https://eur-lex.europa.eu/budget/data/General/2019/en/GenRev.pdf

2.9 This left a final agreed 2019 EU Budget of €166.2 billion (£148.7 billion) in commitment appropriations and €148.5 billion[12] (£122.8 billion) in payment appropriations. Further details on budget amendments and the final agreed 2019 EU Budget can be found in Box 2.A.

Box 2.A: Budget Amendments and the Final Agreed 2019 EU Budget

The final agreed 2019 EU Budget of €148.5 billion in payments is well within the 2019 payments ceiling agreed in the 2013 MFF deal of €166.7 billion.

Table 2.A shows payment appropriations for the adopted 2019 EU Budget. This is the original 2019 EU Budget which was formally agreed by the Council and European Parliament in December 2018. This is prior to any in-year budget amendments.

Table 2.A also shows the final agreed 2019 EU Budget. This includes the effects of draft amending budgets 1-6 approved by the Council and European Parliament. Draft amending budgets are proposals made by the Commission to amend certain aspects of the adopted Budget of a year. These can increase or decrease expenditure in line with updated forecasts of expenditure and revenue. They can also adjust member state contributions. In total, the final agreed 2019 Budget was €295 million in payment appropriations higher than when adopted, primarily due to mobilisation of the European Union Solidarity Fund.

Chart 2.A shows the payment appropriations by heading for the final agreed 2019 EU Budget.

The final agreed 2019 EU Budget will be referred to in the text, used in tables and displayed in charts throughout this document, unless stated otherwise.

[12] Amending budget No. 3/2019: https://op.europa.eu/en/publication-detail/-/publication/fdfda29d-7c70-11e9-9f05-01aa75ed71a1/language-en

Table 2.A: 2019 EU Budget (€ million nominal)

Payment Appropriations	Financial Perspective Ceiling[1]	Commission draft 2019 EU Budget[2]	Council position[2]	European Parliament position[2]	Adopted 2019 EU Budget[3]	Final Agreed 2019 EU Budget[4]	Final Agreed 2018 EU Budget[5]
1. Smart and Inclusive Growth *of which:*		67,518	67,456	68,321	67,557	67,557	66,623
1a. Competitiveness for Growth and Jobs		20,467	20,422	21,111	20,522	20,522	20,095
1b. Economic, Social and Territorial Cohesion		47,051	47,034	47,209	47,035	47,035	46,527
2. Sustainable Growth: Natural Resources		57,790	57,462	57,911	57,400	57,400	56,041
3. Security and Citizenship		3,486	3,482	3,579	3,527	3,527	2,981
4. Global Europe		9,508	9,463	9,161	9,358	9,358	8,906
5. Administration		9,961	9,895	9,967	9,945	9,945	9,666
Total Payment Appropriation	166 709	148,675	148,170	149,349	148,199	148,492	144,768

Note: Column totals do not equal the sum of individual items due to rounding and spending not attributable to any heading e.g. despite having the same item values, the difference between the total payment appropriations for the adopted and final 2019 budgets can be explained by an increase of €294 million under the Flexibility instrument.

[1] Draft general budget of the European Union for the financial year 2019 https://op.europa.eu/en/publication-detail/-/publication/fdfda29d-7c70-11e9-9f05-01aa75ed71a1/language-en

[2] Commission draft 2019 Budget: https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/com-2018-709_2018_en.pdf

[3] Final Adopted Budget: https://op.europa.eu/en/publication-detail/-/publication/8e2b0546-f482-11e8-9982-01aa75ed71a1/language-en/format-PDF/source-122479242

[4] Draft amending budget No. 3/2019https://op.europa.eu/en/publication-detail/-/publication/fdfda29d-7c70-11e9-9f05-01aa75ed71a1/language-en

[5] Draft amending budget No. 6/2018: https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/com-2018-704_2018_en.pdf

2.10 Details of the levels of payments in the final agreed 2019 EU Budget are as follows (all figures are nominal):[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 €67.6 billion (£60.5 billion)
- **Payments towards research, learning, and innovation (Heading 1a)** were set at €20.5 billion (£18.4 billion). Payments toward fostering regional growth and employment (Heading 1b) were set at €47 billion (£42.1 billion)
- **Heading 2: Sustainable Growth: Natural Resources.** Expenditure in this area includes spending on the Common Agricultural Policy, fisheries, rural development, and measures aiming to contribute to food quality and a cleaner environment. Payments in this area were set at €57.4 billion (£53.1 billion).
- **Heading 3: Security and Citizenship.** Expenditure in this area includes immigration, migration, security, and fundamental rights and justice. Payments for Heading 3 overall in 2019, excluding those associated with the European Union Solidarity Fund, were set at €3.5 billion (£3.2 billion).
- **Heading 4:** Global Europe. Expenditure in this area is focused on EU foreign policy and international development. Payments for Heading 4 were set at €9.4 billion (£8.4 billion).
- **Heading 5**: Administration. Expenditure for Heading 5 is on the functioning of the EU institutions and includes remuneration and allowances for staff and members, pension costs, and rent and other building costs. Payments for 2019 under Heading 5 were set at €9.9 billion (£8.9 billion).

2.11 For 2020, the adopted EU Budget was agreed in December 2019 with commitment appropriations of **€**168.7 billion[2] **(£**143.5 billion)[3] and payment appropriations of €153.6 billion (£130.7 billion).

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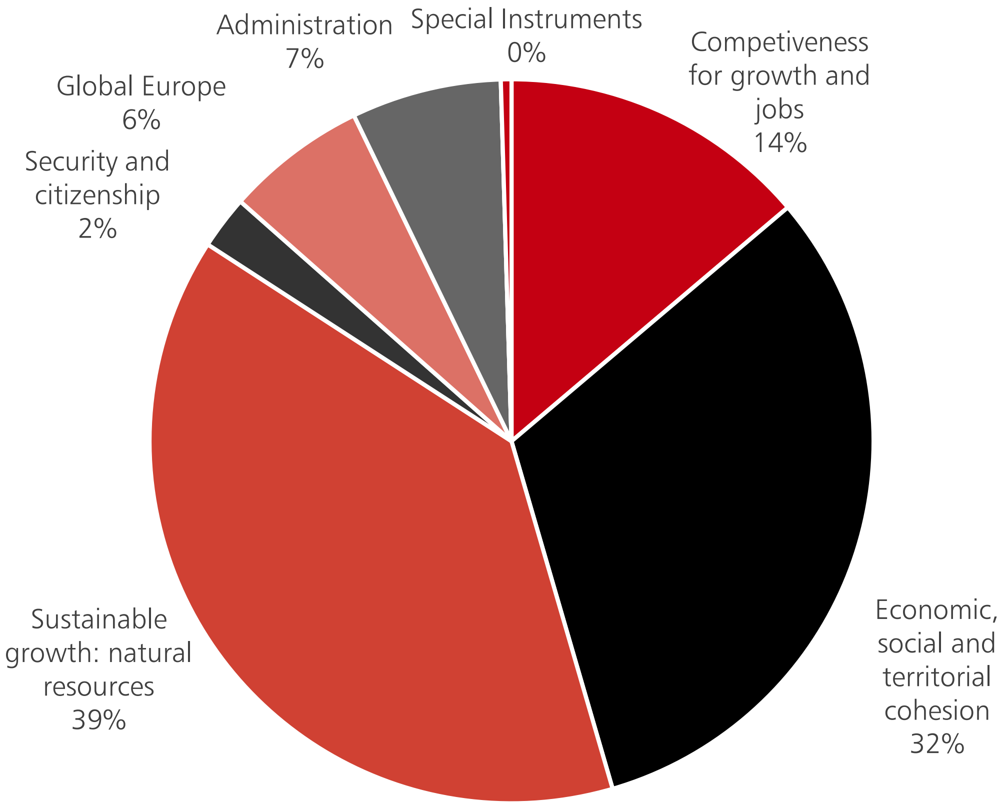
[1] Draft amending budget No. 3/2019 (includes amending budgets 1-3): https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019B1818&from=EN

[2] EU budget for 2020: https://eur-lex.europa.eu/budget/data/General/2020/en/GenRev.pdf

[3] 2020: £1 = €1.175364. This is the 31 December 2019 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 2019.

Chart 2.A: Final Agreed 2019 EU Budget – payment appropriations by budget heading



Source: Amending Budget No.3/2019:
: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019B1818&from=EN

Chapter 3

Contributions to the EU Budget

EU Revenue

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

3.2 Chart 3.A shows a breakdown of how the 2019 EU Budget was financed by EU member states. The key points to note for the 2019 EU Budget are[1]:

- TOR is €21.5 billion (£19.2 billion) and the UK's share is 15.3%. In 2018, outturn revenue from this source was €20.2 billion (£17.9 billion), of which the UK's share was 14.5%

- VAT-based contributions are €17.7 billion (£15.9 billion) and the UK's share is 18.7%. In 2018, total VAT-based contributions were €17.6 billion (£15.6 billion), of which the UK's share was 18.8%

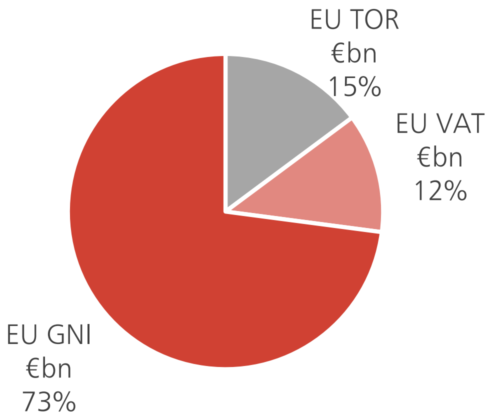
- GNI-based contributions are €105.6 billion (£94.4 billion) and the UK's share is 14.9%. In 2018, GNI-based contributions were €104.5 billion (£92.4 billion) with a UK share of 14.5%

- the estimated value of the UK's rebate in 2019 is €5.0 billion (£4.5 billion) compared with €5.0 billion (£4.4 billion) in 2018. 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 state's share of financing the 2019 EU Budget after taking account of the UK rebate.

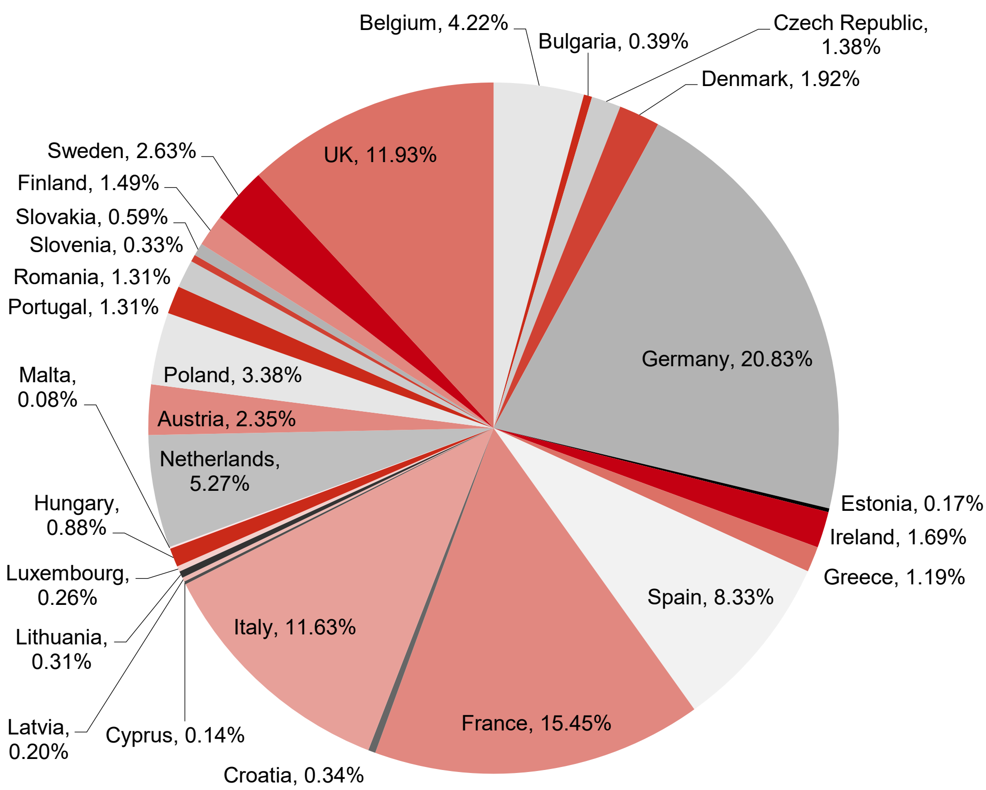
[1] Estimates are sourced from the European Commission's Amending Budget 3 to the 2019 budget. https://ec.europa.eu/info/publications/amending-budget-no-3-2019_en. Outturns are sourced from the European Commission's 2018 EU Budget Financial Report. https://op.europa.eu/en/publication-detail/-/publication/f4a0a78a-0b50-11ea-8c1f-01aa75ed71a1/

Chart 3.A: 2019 EU Budget Revenue



Source: Amending Budget No. 3 to the 2019 Budget, European Commission. https://ec.europa.eu/info/publications/amending-budget-no-3-2019_en

Chart 3.B: EU Budget revenue 2019 – percentage share after rebates by member states



Source: Amending Budget No. 3 to the 2019 Budget, European Commission. https://ec.europa.eu/info/publications/amending-budget-no-3-2019_en

The UK's net contribution

3.4 Table 3.A shows the UK's gross payments, rebate, public sector receipts and net public sector contributions to the EU Budget for calendar years 2013 to 2019. The figures for 2019 include estimates. Figures for earlier years are outturns.

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

	£ million						
	2013	2014	2015	2016	2017	2018	2019
Gross contribution[1]	18,135	18,778	19,560	16,996	18,625	17,445	18,946
Less: UK rebate	-3,674	-4,416	-4,914	-3,878	-5,633	-4,247	-4,516
Less: Public sector receipts	-3,996	-4,583	-3,883	-3,492	-4,084	-4,277	-4,988
Net public sector contribution[2]	10,465	9,779	10,763	9,626	8,909	8,921	9,442

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

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

Source: HM Treasury calculations

3.5 The fluctuation in the UK's net public sector contribution to the EU Budget is due to the nature of the Own Resources system, and consequential fluctuations in the UK rebate, as well as variations in public sector receipts and the exchange rate. For further details, refer to the technical annex and the Glossary.

3.6 UK public sector receipts in 2019, mainly from the European Agricultural Guarantee Fund (EAGF), European Agricultural Fund for Rural Development (EAFRD) and the Social and Regional Development Funds, are worth around £5.0 billion. The majority of these receipts will either be paid to, or used in support of, the private sector but are channelled through government departments or agencies

3.7 The EU makes some payments directly to the private sector, for example to carry out research activities. These payments do not appear in public sector accounts. It is estimated that in 2017 these receipts were worth £1.5 billion, and in 2018 that they were worth £1.6 billion (see Technical Annex B). These payments are not included in Table 3.A or Tables 3.C-F, which provide data only on receipts channelled through the public sector.

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

3.9 Table 3.B sets out the Commission figures for the UK's gross contributions and receipts and the implied net contribution. They are taken from the Commission's latest financial report.

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

				£ billion / € billion
	Gross contribution post rebate (€ billion)	Total public and private receipts (€ billion)	Net contribution (€ billion)	Net contribution (£ billion)
2014	14.07	6.98	7.09	5.71
2015	21.41	7.46	13.95	10.13
2016	16.62	7.05	9.57	7.84
2017	13.76	6.33	7.43	6.51
2018	16.40	6.63	9.77	8.64
Average	**16.45**	**6.89**	**9.56**	**7.77**

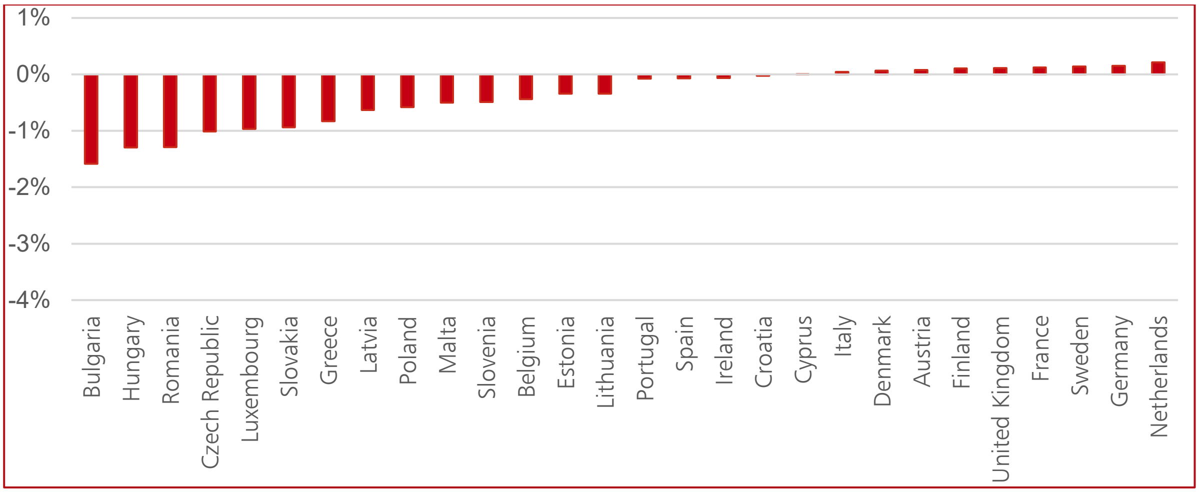
Source: 2018 EU Budget Financial Report, European Commission

3.10 Figures for 2018 include a redistribution of total contributions across the member states following the implementation of the 2014 Own Resources Decision agreed in 2013 as part of the 2014-20 MFF agreement. The new Decision required ratification by all Member States in accordance with their own constitutional requirements before it could enter into force. The Decision was ratified by the UK Parliament through the EU (Finances) Act 2015. The redistribution has been fully anticipated in OBR forecasts since December 2013.

3.11 In accordance with a commitment to the Public Accounts Committee (PAC), the technical annex of this document explains the main differences in respect of calendar years 2017 and 2018 between the government's figures and those which can be derived from the European Commission's EU Budget Financial Reports.

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

Chart 3.C: Average net contribution as % of GNI by country for the years 2014-2018



Source: 2018 EU Budget Financial Report, 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 UK financial year basis between 2013-14 and 2018-19.

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 or European Structural and Investment Funds payments, which take place in the first months of the calendar year.

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

	£ million					
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Gross contribution[1]	18,208	18,733	17,635	16,926	17,450	20,377
Less: UK rebate	-4,130	-4,811	-4,068	-4,757	-4,547	-4,846
Less: Public sector receipts	-3,856	-4,690	-2,811	-4,081	-4,130	-4,372
Net public sector contribution[2]	10,223	9,232	10,756	8,088	8,773	11,159

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

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

Source: HM Treasury calculations

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

	£ million					
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
EAGF	2,602	2,372	1,318	3,057	2,728	2,835
EAFRD	638	534	619	367	536	551
Social Fund	249	368	543	268	223	177
Regional Development Fund	275	1,305	297	237	337	750
Other Receipts	92	105	34	151	306	60
Total	**3,856**	**4,683**	**2,811**	**4,081**	**4,130**	**4,372**

Source: HM Treasury calculations

Chapter 4

Financial Management and anti-fraud issues

4.1 This chapter provides an overview of the annual reports – relating to financial management and anti-fraud issues – published in 2018 and concerning the 2017 EU budget.[1] First, the European Court of Auditors (ECA) 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. Second, the Commission's annual 'Fight Against Fraud' report details the actions taken by the Commission and member states to counter fraud affecting EU funds. The report also highlights areas that are most at risk of fraud and in need of targeted action at both EU and national level. Third, the European Anti-Fraud Office (OLAF) annual report, which summaries the activities of the Office during the preceding year. This chapter provides an overview of the annual reports – relating to financial management and anti-fraud issues.

European Court of Auditors' annual report on the 2017 EU Budget

4.2 The ECA is the EU's independent auditor and is responsible for assessing the accounts and payments of EU institutions. The ECA is required to provide the European Parliament and Council with an annual report on the implementation of the EU Budget[2]. This report assesses the fairness and accuracy of the EU budget accounts and the regularity of the underlying transactions (the level of error). The report also contains targeted recommendations to address identified errors and weaknesses. It includes a Statement of Assurance (usually referred to as the 'DAS', from the French 'Déclaration d'Assurance') which confirms whether the EU accounts are complete and accurate, and whether income and expenditure have been managed in accordance with all contractual and legal obligations. The report forms an essential element in the European Parliament's oversight of the Commission's management of the EU Budget.

4.3 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.

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1 The 2018 reports, concerning the 2017 EU budget, are scrutinised here to account for the completion of the EU budget discharge process in 2019

2 The European Court of Auditors' annual report on the 2017 EU Budget can be found at: https://www.eca.europa.eu/Lists/ECADocuments/annualreports-2016/annualreports-2016-EN.pdf

4.4 The ECA's report on the 2017 EU budget was published on 4 October 2018. As in previous years, it provided an assessment of each EU Budget area and offered conclusions based mainly on: testing the regularity of transactions; the effectiveness of the principal supervisory and control systems governing the revenue or expenditure involved; and a review of the performance of the EU Budget.

ECA's Statement of Assurance

4.5 In the ECA's opinion, the 2017 EU budget accounts were reliable and gave a fair representation of the financial position and the results of operations and cash flows for the year

4.6 The ECA found EU revenue underlying the 2017 accounts to be legal and regular in all material aspects, as they have done in every year since 2007.

4.7 The ECA found that payments (EU spending) continued to be affected by material error with an estimated error rate of 2.4% for the 2017 EU Budget as a whole, a small decrease from 3.1% for the 2016 budget.

4.8 The ECA considers an estimated error rate above 2% to be material. The ECA's estimate of the level of error is not a measure of fraud, inefficiency or waste. It is an estimate of the money that should not have been paid out because it was not used in accordance with the relevant rules and regulations. This can include payments for expenditure which was ineligible or for purchases without proper application of public purchasing rules.

4.9 All individually assessed areas of EU spending were affected by material error with the exception of administrative expenditure. Some Member States have expressed concern that Headings 3 (Security and Citizenship) and 4 (Global Europe) were not individually assessed. In light of these findings, for the second consecutive year, the ECA granted a qualified – rather than adverse - DAS with regards to the legality and regularity of the transactions underlying the EU Budget accounts.

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

- Chapter 2 – Budgetary and Financial Management: This covers the key budgetary and financial management issues which arose in 2017. These include overall levels of spending, the relationship with budgetary and Multiannual Financial Framework (MFF) ceilings, levels of unpaid payment claims, levels of outstanding commitments and levels of cash held in financial instruments. The ECA recommended that the Commission:

- provide accurate and complete information on the closure of Financial Instruments under Shared Management for the 2007-2013 MFF, including the final amounts returned to the EU budget and the amounts belonging to Member States

- when presenting legislative proposals that include the creation or addition of sizeable contingent liabilities, accompany these with an overview of the total value of contingent liabilities supported by the budget, together with an analysis of stress test scenarios and their possible impact on the budget

- invite the European Parliament and Council, in the context of the debate on the MFF post-2020, to provide for mechanisms to better manage the risk of payments backlogs, given the high level of outstanding commitments in the current and previous MFFs

- **Chapter 3 – Getting Results from the EU Budget**: The theme of this chapter is performance. It covers the Commission's reporting on performance, the management plans of selected directorate-generals (DGs) and the reporting by the Commission to the European Parliament and Council. This chapter has three parts: the first on performance reporting; the second on the results of the ECA's performance audits; and the third on the follow-up of the ECA's recommendations.

  The ECA recommended that the Commission:

  - streamline and simplify the strategic frameworks governing the implementation of the EU budget, thereby reinforcing accountability for results and increasing clarity and transparency for all stakeholders
  - include up-to-date performance information in performance reporting on progress made towards achieving targets and always take, or make proposals for, appropriate action when these targets are not met
  - streamline indicators on the performance of the EU budget and improve the alignment between high-level general objectives and specific programme and policy objectives
  - provide information in the core performance reports on how performance information has been used in decision-making
  - introduce measures and incentives to foster a greater focus on performance in the Commission's internal culture, building on the progress already made

- **Chapter 4 – Revenue**: This covers the revenue through which the EU finances its budget. For 2017 the ECA concluded that member states' payments of TOR, VAT and GNI based resources and other revenue were all free from material error. The error rate for transactions tested was found to be nil. The examined supervisory and control systems for GNI and VAT-based own resources and other revenue were assessed as effective. However, some of the examined systems for TOR were assessed as only partially effective. There remain some concerns regarding the calculation of Member States' contributions to the EU budget.

  The ECA recommended that the Commission:

  - improve its monitoring of import flows, including making wider use of data mining techniques to analyse unusual patterns and their underlying reasons, and act promptly to ensure that due amounts of TOR are made available
  - review the existing control framework and better document its application in verifying Member States' calculations of the VAT-based own resource

- **Chapter 5 – 'Competitiveness for growth and jobs'**: This chapter covers spending on research and innovation, enhancing education systems, promoting employment, ensuring a digital single market, promoting renewable and efficient energy, transport and improving the business environment particularly for small and medium-sized enterprises (SMEs). The ECA found that the error rate in this area was 4.2% (up from 4.1% in 2016). The main source of error was reimbursement of ineligible costs.

  The ECA recommended that the Commission:

- as regards Horizon 2020, further clarify the eligibility rules on personnel costs, review the personnel costs methodology and complete the list of issues in certain countries
- as regards the Connecting Europe Facility, improve the level of awareness among beneficiaries of the eligibility rules, in particular by drawing a clear distinction between an implementation contract and a subcontract
- promptly address the weaknesses identified by the Commission's Internal Audit Service in the Education, Audiovisual and Culture Executive Agency's Erasmus+ grant management process and in the monitoring of research and innovation projects

- **Chapter 6 – 'Economic, social and territorial cohesion:** This covers the European Regional Development Fund (ERDF), the Cohesion Fund (CF) and the European Social Fund (ESF). Funding in this area aims to reduce development disparities between different regions, restructure declining industrial areas, diversify rural areas and encourage cross-border, transnational and inter-regional cooperation. The ECA identified the most prevalent causes of error as financial instruments, followed by ineligible costs. The overall error rate across this MFF heading area was 3.0% (down from 4.8% in 2016).

  The ECA recommended that the Commission:

- ensure that audit arrangements for financial instruments managed by the European Investment Fund are adequate at the level of financial intermediaries
- propose legislative changes for the 2021-2027 MFF to exclude the reimbursement of VAT to public bodies from EU funds
- address the weaknesses the ECA have identified in its verification of the audit authorities' work in the context of the Commission's regulatory audits
- address the complexity of the information presented on the 2014-2020 control and assurance framework in the annual activity reports (AARs) of the Directorate General for Regional and Urban Policy and the Directorate General for Employment, Social Affairs and Inclusion
- ensure that audit arrangements are changed in accordance with the proposal for financial instruments in the post-2020 regulatory

framework so that only the actual use of funds at final recipient level is used for the calculation of residual error rates

- disclose and overall residual error rate for "Cohesion" for each accounting year
- carry out sufficient regulatory checks to conclude on the effectiveness of the audit authorities' work and obtain reasonable assurance on the regularity of expenditure at the latest in the AARs it publishes following the year for which it accepts the accounts

- Chapter 7 – 'Natural resources': This spending area covers the Common Agricultural Policy (CAP), the Common Fisheries Policy (CFP) and some EU spending on environment and climate action. The ECA estimated the error rate as 2.4% (down from 2.5% in 2016). Direct payments were free from material error, but the error rate remains high in relation to rural development, market measures, the environment, climate action and fisheries.

  The ECA recommended that the Commission:

- assess the effectiveness of Member States' actions to address the causes of errors for payments for market measures and rural development, and issue further guidance where necessary
- carry out a closer examination of the quality of the certification bodies' transaction testing
- check the implementation of the remedial action taken by Member State authorities, where the Commission found it could place no or limited reliance on a certification body's work
- monitor progress made by the paying agencies in supporting farmers not yet using the geospatial aid application and promote best practices, in order to maximise the benefits and achieve full implementation of the new system before the regulatory deadlines

- Chapter 8 – 'Security and Citizenship': This covers payments made with the objective of strengthening the concept of EU citizenship by creating an area without internal frontiers. The ECA does not calculate an error rate for this area as there are too few transactions for it to take a representative sample.

  The ECA recommends that the Commission:

- provide guidance to Member States on using EU funds in accordance with the principles of sound financial management. In particular, the Asylum, Migration and Integration Fund (AMIF) / Internal Security Fund (ISF) implementing guidelines should specify that, when public bodies implement EU actions, the EU co-financing may not exceed the total eligible expenditure excluding VAT
- require Member States, in the annual accounts of their AMIF and ISF national programmes, to break down the nature of the amounts they

report into recoveries, pre-financing and expenditure actually incurred; and report in its AAR from 2018 the actual spending per fund

- **Chapter 9 – 'Global Europe'**: This covers spending related to foreign policy and international development. The ECA does not calculate an error rate for this area as there are too few transactions for it to take a representative sample.

  The ECA recommends that the Commission:

- provide the external contractor carrying out the next residual error rate study with more precise guidelines on checking second-level procurement
- stratify the population for the next residual error rate study based on the inherent risk of projects, with more weight placed on direct management grants and less on budget-support transactions
- disclose in the next AAR the limitations of the residual error rate study
- review current guidance to beneficiaries of projects implemented under indirect management with the aim of ensuring that planned activities are executed in a timely manner and that project outputs are actually used, so to obtain the best value for money

- **Chapter 10 – 'Administration':** This covers the administrative and other expenditure of EU institutions and bodies. Expenditure in this area includes human resources (salaries, allowances and pensions), which account for c.60% of the spending in this policy group, in addition to expenditure on buildings, equipment, energy, communications and information technology, which accounts for the remainder. The results of the ECA audits of the EU agencies and other decentralised bodies are reported in specific annual reports, which are published separately. The ECA concluded that payments were not affected by material error (estimated error rate of 0.5%, up from 0.2% in 2016) and their examination of system did not reveal any significant weaknesses. The ECA recommended that the European Parliament:

- improve the guidelines on selection and award criteria for procurement procedures in the context of the revision of the Financial Regulation
- strengthen the procedure for groups of visitors to submit declarations of expenditure when it next revises its rules on receiving groups of visitors

Council recommendation to the European Parliament on Discharge

4.11 On 12 February 2019, the Council noted both the ECA's Statement of Assurance on the implementation of the EU Budget for the financial year 2017 and the ECA's analysis of the audit findings and conclusions. The Council stressed the importance of independent audits carried out at EU level and strongly supported the ECA's work and audit findings.

4.12 However, the Council welcomed the decrease in the error rate but remained concerned that payments from the EU budget continued to breach the materiality threshold and reiterated its desire to see year-on-year improvements in the estimated level of error across all policy areas. The Council also stated that simplification of rules is key to achieving a lower error rate and invited the Commission and member states to ensure that simplification remains a top priority.

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

- urged the Commission to continuously improve payment estimates and monitoring mechanisms in order to manage the risk that available payment appropriations will be insufficient to settle all payment claims
- urged Member States and the Commission to intensify their efforts to accelerate implementation of European Structural and Investment Funds
- called on the Commission to provide an overview of the total value of contingent liabilities, together with an analysis of their possible impact on the EU budget and of the way risk-exposure can be mitigated
- called on the Commission to disseminate knowledge and guidance about performance management and exchanging good practice in using performance information
- reiterated its appeal to the Commission to continue its efforts to address the causes of error within the "Competitiveness for Growth and Jobs" heading, with a particular focus on the programmes subject to persistently high error levels
- urged the ECA, in relation to both the "Security and Citizenship" and "Global Europe" headings, to provide an estimated level of error that allows year-on-year comparison

4.14 On 12 February 2019, the Netherlands and the UK voted against the Council's recommendation on discharge in order to highlight the need for further improvements in budgetary management. Sweden – who abstained - and the Netherlands also submitted a joint counter-statement calling for progress in key areas, including the focus on results and results-based management, as well as the simplification of complex rules surrounding EU budget expenditure.

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

4.15 On 26 March 2019, the European Parliament formally approved the discharge of the EU budget accounts for 2017 and issued their Resolution.[3] It did so

[3] Discharge 2017: EU general budget 2017 – European Parliament can be found at: https://www.europarl.europa.eu/doceo/document/TA-8-2019-0245_EN.pdf

having considered the ECA's report, the Commission's response, and the recommendation of the Council.

Fight against Fraud Report 2017

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

4.17 As in previous years, the report summarises and evaluates measures taken by the Commission and member states to counter fraud and irregularities in relation to EU Budget funds. The report also includes both the latest information on irregularities detected by control systems and suspected fraud (with a distinction made between fraud and other irregularities), and on measures taken to deal with them. The 2017 report[4], published on 3 September 2018, covers:

- anti-fraud policies at the EU level
- detection and reporting of fraudulent and non-fraudulent irregularities that affect the EU budget
- measures taken by member states to counter fraud and other illegal activities which affect the EU's financial interests

4.18 The report is accompanied by six Commission Staff Working Papers: (i) Implementation of Article 325 TFEU by the member states in 2017; (ii) Statistical Evaluation of Irregularities reported for own resources, natural resources, cohesion policy, pre-accession assistance and direct expenditure; (iii) Follow-up recommendations to the Commission report on the protection of the EU's financial interests - Fight Against Fraud 2016; (iv) Early Detection and Exclusion System (EDES) – Panel referred to in Article 108 of the Financial Regulation; (v) Annual overview with information on the results of the Hercule III programme in 2017; and (vi) Assessment of the implementation of Article 43b of Regulation (EC) 515/97.

4.19 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

4.20 In 2017, a total of 1,146 irregularities were reported as fraudulent (suspected and established fraud). The estimated financial impact of irregularities reported as fraudulent was c.€467 million (£409.2 million)[5]. Revenue (e.g. customs) was the policy area with the highest number of irregularities reported as fraudulent.

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[4] The 2017 Fight Against Fraud Report can be found at: https://ec.europa.eu/anti-fraud/sites/antifraud/files/pif_report_2017_en.pdf

[5] 2017: £1 = €1.1413. This is the 2017 average exchange rate.

However, Cohesion policy accounted for the highest value of suspected fraudulent transactions, at c.69% of the total amounts involved.

Other irregularities (not reported as fraudulent)

4.21 In 2017, a total of 14,097 irregularities were reported as non-fraudulent. The estimated financial impact of these irregularities was €2.11 billion (£1.85 billion).

Cases of undervaluation detected in the United Kingdom affecting TOR revenue

4.22 In November 2016, the Commission's inspection of the UK regarding TOR alleged significant weaknesses in the management and control of undervalued imports of textiles and footwear.

4.23 An OLAF investigation which concluded in 2017 alleged that appropriate measures were not taken to prevent systematically undervalued imports of textiles and footwears from China from entering the EU through the UK.

4.24 These elements led the Director-General for Budget to make a reservation in the 2016 Annual Activity report on the inaccuracy of the TOR amounts transferred to the EU budget by the UK since 2013.

4.25 The Commission started an infringement procedure in March 2018 in relation to alleged duty losses due to undervaluation fraud and the case was referred to the Court of Justice of the EU (CJEU).

4.26 The government takes these allegations extremely seriously and is strongly contesting the case. The UK submitted its Rejoinder to the Court of Justice of the EU on 21 November 2019. It adds to the UK's main Defence submitted in June 2019 and continues to make clear that the UK's response to the threat of undervaluation fraud was reasonable and did not breach its obligations under EU law. The government strongly denies that the UK caused the alleged losses to the EU budget. Even if the CJEU were to find the UK in breach of EU law, independent expert analysis demonstrates that the Commission has greatly overstated the size and severity of the alleged fraud due to methodological flaws in its analysis. The government takes customs fraud very seriously and will continue to evolve the response as new threats emerge.

Recommendations

4.27 The report considers the actions taken by the Commission in 2017 to counter fraud, including use of financial corrections and preventive measures where fraud was suspected.

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

- remain vigilant as regards the risk of undervaluation of goods
- further exploit the potential of risk analysis, tailoring the approach to the different types of expenditure and taking advantage of best practices
- facilitate and assess the spontaneous reporting of potential irregularities and strengthen the protection of whistle-blowers

- promote systematic and timely cooperation between judicial and administrative authorities

Eighteenth Report of the European Anti-Fraud Office (1 January to 31 December 2017)

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

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

4.30 Every year, the OLAF Director publishes a report on the activities of the Office over the previous year. The eighteenth report, issued in October 2018, gave a summary of OLAF's achievements in 2017, supported by statistics and case studies.[6]

4.31 The following statistics were reported for 2017:

- 1,293 items of information were received in 2017 from public and private sources
- 215 investigations were opened in 2017
- 309 recommendations were issued in 2017
- Structural funds, centralised expenditure and EU staff accounted for the highest number of investigations
- OLAF recommended the recovery of €3.095 billion (£2.71 billion) as a result of investigations in 2017

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

- evaluation of Regulation (EU, Euratom) No 883/2013 ("the OLAF regulation")
- preparing for the creation of the European Public Prosecutor (EPPO)
- the adoption of the "Protection of the EU's Financial Interests" (PIF) directive
- strengthening the EU's policy on fighting the illicit tobacco trade

[6] OLAF's sixteenth activity report can be found at: http://g8fip1kplyr33r3krz5b97d1.wpengine.netdna-cdn.com/wp-content/uploads/2017/05/OLAF-2016.6919_web.pdf

4.33 In 2017, OLAF operated on an administrative budget of €60.0 million (£52.6 million).

Chapter 5

Government strategy on using EU funds in the UK: an update

5.1 The government is fully committed to maintaining the greatest possible transparency on the use of EU funds at a cross-government level. The 2018 annual statement, as part of the Treasury's response to recommendations from the Public Accounts Committee (PAC)[1] set out the government's strategy on using EU funds in the UK.

5.2 This year, this chapter summarises the strategy, including updates where relevant, and sets out how the government is performing in its efforts to minimise disallowance. Now the UK has left the EU, it also highlights the continuity of EU funding for the majority of programmes under the 2014-2020 Multiannual Financial Framework (MFF) under the terms of the Withdrawal Agreement.

5.3 This chapter focuses predominantly on the Common Agricultural Policy and European Structural and Investment Funds as collectively they constitute the vast majority of UK public sector receipts from the EU budget (in 2019-20, they accounted for 96.3% of UK public sector receipts.[2]

5.4 The UK private sector also receives a significant amount of funding through programmes directly managed by the European Commission, such as Horizon 2020. As of February, 2020[3], UK organisations have been awarded a total of €6.34 billion (£5.39 billion[4]), which accounts for 12.7% of the EU funding so far awarded under Horizon 2020.

5.5 In accordance with the devolution settlement, relations with the EU are the responsibility of Parliament and the government of the United Kingdom, as the member state. Responsibility for implementing EU obligations relating to devolved matters lies with the devolved administrations. The proper administration of EU Funds in Northern Ireland, Scotland and Wales is a matter for the relevant devolved administration, including in relation to disallowance. This chapter and Annex D have been prepared with the main focus on English government departments and without prejudice to the devolution of these responsibilities.

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1 PAC report on the financial management of the EU budget in 2014 can be found at: https://publications.parliament.uk/pa/cm201516/cmselect/cmpubacc/730/730.pdf; The government response can be found at: https://www.gov.uk/government/publications/treasury-minutes-november-2016

2 HMT figures, derived from Table 3.E. The Home Office, for example, also manages EU funds. However, disallowance relating to those funds are not material to Home Office accounts. As set out in table D.5, as at 31 March 2019 there were no disallowance provisions relating to 'Other' funds.

3 https://webgate.ec.europa.eu/dashboard/sense/app/a976d168-2023-41d8-acec-e77640154726/sheet/d23bba31-e385-4cc0-975e-a67059972142/state/0

4 2019: £1 = €1.175364. This is the 31st December 2019 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 2020.

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

Government strategy for using EU fund

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

5.8 While the UK remained a member state, the government's approach to the EU Budget continued to be to minimise UK contributions to the Budget by arguing for budgetary restraint at European level.

5.9 Ultimate responsibility for implementing the EU Budget lies with the European Commission. But in practice, some 80% of the EU Budget is spent under what is known as 'shared management', with individual EU countries distributing funds and managing expenditure in accordance with agreements between member states and the European Commission, as well as related legislation adopted by the EU and member states. Further information on the auditing arrangements for the main shared management funds can be found in Annex D.

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

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

Fund	2014-20 allocation (€ billion)	2014-20 allocation (£ billion)[5]
European Agricultural Guarantee Fund (EAGF) or Pillar 1 of Common Agricultural Policy[6]	22.7	19.3
European Regional Development Fund (ERDF) + European Social Fund (ESF)[7]	10.8	9.2
European Agricultural Fund for Rural Development (EAFRD)[8]	5.2	4.4
European Maritime and Fisheries Fund (EMFF)[9]	0.2	0.2

5.11 The Common Agricultural Policy (CAP) Pillar 1, funded through the European Agricultural Guarantee Fund (EAGF), primarily involves direct payments to farmers and is the largest source of UK receipts. CAP in England is overseen by the Department for Environment, Food and Rural Affairs (DEFRA). The Commission does not require strategic programming for EAGF, but DEFRA's policy approach in England for the 2014-2020 MFF was set out in a series of formal consultation responses.[10] DEFRA's overall approach for using CAP receipts continues to be based on commitments to:

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

5.12 European Structural and Investment Funds (ESIFs), which include the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD, sometimes referred to as the second pillar of CAP) and the European Maritime and Fisheries Fund (EMFF), make up the second largest proportion of UK public sector receipts from the EU and involve investment in the real economy by supporting job creation and economic

[5] 2019: £1 = €1.175364. This is the 31st December 2019 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 2020.

[6] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012R0671&from=EN ; https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0994&from=EN ; http://data.consilium.europa.eu/doc/document/ST-14561-2014-ADD-1/en/pdf

[7] European Structural and Investment Funds: UK Partnership Agreement: https://www.gov.uk/government/publications/european-structural-and-investment-funds-uk-partnership-agreement

[8] http://data.consilium.europa.eu/doc/document/ST-14561-2014-ADD-1/en/pdf

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

[10] https://www.gov.uk/government/consultations/common-agricultural-policy-reform-implementation-in-england

growth. The UK Partnership Agreement[11] sets out the plans and priorities for the deployment of these funds to complement EU and UK objectives on sustainable jobs and growth, and again reflects the government's overall approach set out above. The Agreement was formed by working closely with devolved administrations and with Local Enterprise Partnerships (LEPs) in England. For the 2014-20 programming period, the UK decided that the overall objectives for ESIFs would include: promoting sustainable and quality employment, and supporting labour mobility;

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

5.13 Underpinning the Partnership Agreement are detailed Operational Programmes setting out the strategy and priorities for each fund in each of the constituent nations along with information about management and delivery. UK management of ESIFs has promoted value for money by: setting consistent performance management standards across different programmes; establishing a strategic framework for investments; and prioritising local needs. For example, the ESF and ERDF Programmes include a requirement for applicants to demonstrate quantitative and qualitative aspects of value for money at the outline and full application stages and through ongoing contract management arrangements over the lifetime of the project.

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

5.15 Annex D sets out historical information on the levels of EU expenditure in the UK between March 2011 – March 2019 and breaks down this information by fund and, where possible, between England and the devolved administrations.

Government strategy for minimising disallowance

5.16 As part of their oversight of EU Budget spending, the Commission can impose financial corrections on member states for failing to apply EU Regulations

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

correctly in managing and administering EU schemes. In such circumstances, the EU reduces the amount paid to the member state. These corrections are known as 'disallowance'.

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

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

- clear central oversight and clear lines of accountability through the Treasury to departments
- focussing efforts and investment on early identification of risks and sharing best practice if appropriate
- engaging with the EU on rules governing expenditure to minimalize errors which are attributable to the complexity of the regulations governing programme participation

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

CAP

5.20 DEFRA implemented its Disallowance Strategy in 2014 to manage the ongoing risk of disallowance. The strategy was reviewed in 2016 and again following the EU Exit referendum to ensure that the strategy still delivers value for money in light of EU Exit. DEFRA continue to review the strategy to make sure action is taken to minimise our exposure to disallowance, as we exit from the CAP.

5.21 Historically, no member state has achieved zero disallowance under the CAP regime, illustrating the complexity of the schemes and the challenges and costs of complying with them. The main causes of disallowance under the current CAP scheme are currency, accuracy of mapping data and shortcomings in cross-compliance controls. Late Basic Payment Scheme (BPS) payments during the first year of the new system in 2015 resulted in a penalty of €29.4 million (£21.5 million) in 2015, but this issue was resolved for new payments from 2016 onwards.

5.22 However, DEFRA are committed to making substantive progress and taking cost-effective action to minimise disallowance. DEFRA's strategy remains focused on the following areas:

5.23 The Land Parcel Identification System (mapping):

- The strategy has proven to be particularly effective operationally in relation to the Land Parcel Information System (LPIS). The LPIS is a mapping system and is the main control for area-based subsidies and has, and continues to be, the subject of much audit scrutiny by the Commission, ECA and Certification Body. The accuracy and currency of the LPIS has historically been the main cause of disallowance.

- Work to improve the LPIS began following the 2014 Area Aids Audit in which DEFRA received a €81.5m correction for the 2012 and 2013 scheme years. The Commission have subsequently closed the formal Action Plan of improvements to LPIS and the improvements were reflected in the 2018 LPIS Quality Assurance exercise, which DEFRA passed.

- As a result of this investment and other improvements to inspection and administrative controls, the 2019 Area Aids Audit is forecast to result in corrections of less than €17.25 million a year.

5.24 **Approaches to audit findings**: the Rural Payments Agency (RPA) England works to minimise disallowance by:

- providing evidence of any compensatory controls
- undertaking targeted data analysis
- undertaking retrospective checks to demonstrate controls
- where there is a weakness in controls, working to 'ring-fence' audit findings to specific relevant areas to demonstrate a more proportionate risk to EU Funds
- managing the financial impact where a policy decision has an inherent disallowance risk

5.25 Continued EU engagement:

- The CAP is governed by complex rules, which drive up the risk and incidence of disallowance. DEFRA challenge the Commission's proposals for disallowance where it believes that the proposals are disproportionate relative to the risk to the fund, often resulting in lower disallowance being applied.
- DEFRA also engages with member states, exchanging information about the scope and outcome of EU audits in order to improve assessment of disallowance risks.

5.26 Progress in implementing DEFRA's disallowance strategy is overseen by the Department's Disallowance Steering Group, which meets bi-monthly. It is important to note that the impacts of mitigating actions can take time to crystallise. DEFRA, along with the rest of government, continues to engage with the European Commission and other member states on best practice and the sound financial management of remaining EU funds.

ESIFs

5.27 BEIS works with the Managing Authorities (including MHCLG, DWP and DEFRA) and the devolved administrations to ensure that the ESIFs are managed appropriately. Managing Authorities must demonstrate that they comply with certain criteria set out in the ESIF's regulations.

5.28 BEIS and Managing Authorities have put in place an early warning system to identify potential disallowance quickly using the Partnership Agreement Programme Board. This allows for the sharing of expertise between the Managing Authorities and BEIS and to identify lessons learnt. We have increased the frequency of Partnership Agreement Programme Board meetings from biannually to quarterly, increasing the engagement between Managing Authorities across the UK and opportunities to share best practice in implementation. In addition, Managing Authorities are drawing on the experiences from previous programming periods to counteract the risk of disallowance. These include a strengthening of administrative and on-the-spot control checks and checking all expenditure prior to paying out to beneficiaries or reclaiming it from the Commission.

5.29 Projects are risk assessed and scored as part of approval and in most Managing Authorities a control plan is put in place, with higher risk scores leading to more intensive scrutiny. Verification checks of expenditure vary between the Managing Authorities, but typically include desk checks, site visits and expenditure checks by the Certifying Authority – which is responsible for guaranteeing the accuracy and honesty of statements of expenditure and requests for payments before they are sent to the European Commission.

5.30 Across all funds, a range of networks exist to share learning and best practice both between UK authorities and with other member states. The UK continued to participate in these while an EU member state. Following the exit from the EU, the UK no longer attends formal EU meetings and expert groups on shared management programmes. However, where required UK Managing Authorities, Devolved Administrations and EU officials remain in contact to discuss financial issues related to the management of ESIF programmes until their closure.

5.31 In addition to domestic efforts, the UK continued to engage with the EU until exit. This included working on the rules governing EU expenditure and continuing to push for simplified rules across all areas of EU expenditure. Many errors in EU spending are due to the complexities of the regulations governing different programmes, therefore simplifying the rules will reduce the number of errors and reduce the disallowance incurred.

Information on disallowance

5.32 As set out in previous statements, government departments publish information about possible disallowance in their departmental annual accounts and reports. A disallowance provision is recognised in departmental accounts where there is a past event (for example an ineligible payment or a failure to comply with the regulations) which is likely to lead to the EU disallowing expenditure and not reimbursing the UK. The Treasury monitors disallowance provisions.

5.33 Annex D sets out historical information on disallowance and future provisions for them. As noted above, under the Withdrawal Agreement the UK will continue to participate in programmes funded under the 2014-2020 MFF until their closure, and as part of this will continue to have robust audit arrangements and provide updates regularly published by departments. In subsequent annual statements the government will update on performance against the strategies above for programmes we continue to participate in under the 2014-2020 MFF and any future EU programmes that we participate in.

5.34 Tables D.5 and D.6 in Annex D set out data from the 2017-18 and 2018-19 departmental accounts respectively. These include:

- provisions for future corrections added to departmental accounts over the course of the relevant financial year; provisions 'released' by departments during the year, which is the value of provisions no longer expected to materialise into actual disallowance
- and provisions 'utilised' in year, which is the value of provisions that are expected to materialise within 12 months (they are no longer a future long-term liability but are expected to be imposed by the European Commission). The updated data set out in Table D.5 is discussed in more detail in the next section of this chapter

5.35 Whilst information on disallowance provisions can, to some extent, indicate levels of likely disallowance, it is important to note that this information cannot be used to identify trends or measure the success of related strategies because:

- disallowance provisions added to Statements of Financial Position in any given year can relate to activity that has taken place in a number of previous years
- disallowance can be challenged by departments and are sometimes successfully overturned
- as set out earlier in this chapter, disallowance is often illustrative of the complexity of the regulations governing EU funds rather than any misuse of funds, and disallowance may increase temporarily following the introduction of new scheme rules
- figures may not be directly comparable across funds, due to the different ways in which funds work and different levels of complexity of the various programmes
- there may be a lag between action being taken by a department to reduce disallowance and the effect being observable

Update on performance and minimising disallowance

5.36 At European level, UK engagement with the EU institutions and member states has led to a range of UK proposals on simplification and harmonisation being included in the Commission's proposed changes to EU regulations. These changes will continue to support the effective use of EU funds in the UK while the UK continues to participate in programmes funded under the current 2014-2020 MFF until their closure. At the domestic level, progress in using EU funds in this programming period is being made and initial updates on how departments are minimising disallowance is available.

5.37 DEFRA have been delivering CAP Pillar 1 in line with the key principles highlighted above since the beginning of the 2014-2020 programming period. For example, in implementing greening requirements, which set out environmental and ecological conditions for the use of funds, DEFRA has taken advantage of the discretion member states have to implement EU rules flexibly, and has provided a package of options which give farmers a choice over how they comply with the rules. As part of the Withdrawal Agreement the UK will domestically fund 2020 BPS payments. This is because 2020 payments provided to Member States are funded from the 2021 EU budget, which the UK is not contributing to. This gives the UK some limited freedom to make changes and not be subject to disallowance for domestically funded BPS payments.

5.38 In relation to disallowance, DEFRA's strategy is proving to be a success in reducing penalties on CAP expenditure for the 2014-20 period. In several recent audits the initial disallowance amount proposed has reduced significantly solely due to this strategy. For example, in an audit of Area Aids 2016 a €410 million initial proposal was reduced to €28.9 million.

5.39 As demonstrated by the data in Table D.5, while the majority of provisions in 2018-19 continue to be related to agricultural policy funding they have reduced significantly from 2017-18 (set out in Table D.6). The difference in size of provisions for agricultural funding compared to other EU schemes is largely due to the size of the fund. Based on recent data, the new provisions are in respect of Producer Organisations and Public Procurement audits. However, financial provisions for EU audits on agricultural funding routinely fluctuate throughout the audit process before final confirmation, and as such final figures are subject to change. The current CAP disallowance strategy reflects the latest intelligence from these processes and will continue to be updated.

5.40 Although it is early days in terms of verification activity, during calendar year ending 2019, on-the-spot verification activities identified some issues with plans relating to cross cutting themes in ESF and data retention in ERDF and ESF. Cross-cutting themes and document retention guidance was issued in February 2018 and all verification managers ensure project managers understand these Regulatory requirements. In terms of disallowance, the ESIFs strategy is working effectively at this stage. Table D.5 shows that in 2018-19 there were some future provisions relating to the European Social Fund managing exchange rate risk, but these continue to be relatively small.

Certainty for beneficiaries of EU funds

5.41 To reiterate, under the Withdrawal Agreement, the UK will continue to participate in programmes funded under the 2014-2020 MFF until their closure. This means that the vast majority of programmes will continue to receive EU funding across the programme's lifetime. In many cases, funding will continue until after 2020 and the end of the transition period. UK organisations can continue to apply for EU funding under the current MFF, with the exception of the CAP Pillar 1 Direct Payments scheme which the UK will be leaving early as 2020 direct payments are funded from the 2021 EU budget.

5.42 The government previously guaranteed EU funding to provide certainty for UK beneficiaries. Now the Withdrawal Agreement is in force the guarantee is no longer required. In the very limited number of cases where continued participation by the UK is not possible for security related reasons, these projects will be eligible to enter a continuation process. The government's commitment to fund the tail of

CAP Pillar 2 commitments that fall outside of the scope of the Withdrawal Agreement also still stands.

5.43 Under the Withdrawal Agreement the EU and UK remain committed to North South PEACE and INTERREG programmes funded under the current MFF and to the UK's participation in the future PEACE+ programme.

Annex 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.

Error in EU Budget expenditure

A.3 The European Court of Auditors (ECA), established to audit the EU's finances, provide annual statements on the legality and regularity of the transactions underlying EU spending. A summary of the statement for Budget year 2015 is set out in chapter 4. As part of their statement, the ECA estimates the level of error present in EU Budget expenditure, due to it not being used in accordance with EU rules. Whilst the ECA calculate error rates for the EU Budget as a whole, they are clear that they only sample a limited number of transactions in each member state and the "relative frequency of error in samples drawn in different member states cannot be a guide to the

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[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

relative level of error in different member states". The errors identified by the ECA do not necessary lead to actual disallowance. More information on disallowance in the UK is contained in chapter 5.

European Structural and investment funds

A.4 European Structural and Investment Funds (ESIFs), often referred to as Structural Funds, are intended to resolve structural economic and social problems. For the 2014-20 programming period, the Common Provisions Regulation sets out the guiding principles for administering the funds. At present, these funds are:

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

Flexibility Instrument

A.5 The Flexibility Instrument was established under paragraph 24 of the 1999 Inter-institutional Agreement[2] and amended as part of the Mid-Term Review of the MFF[3]. This allows for expenditure in any given Budget year of up to €600 million (2011 prices) above the MFF ceilings established for one or more Budget headings. The amount available is also increased annually by the amount of EU Solidarity Fund and EU Globalisation Adjustment Fund allocations which lapse (or are unused) in the previous year. 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'[4]. It may only be used after all possibilities for reallocating existing appropriations have been exhausted.

[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] Amending regulation: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R1123&from=EN

[4] Regulation laying down the multiannual financial framework for the years 2014-2020: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32013R1311

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.6 **Fraud** covers intentional acts or omissions, in respect of both expenditure and revenue, which involved 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.7 **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.8 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.9 The Own Resources Decision lays down three sources of EU revenue, or "Own Resource":

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);

- customs duties, including those on agricultural products, in respect of trade with non-member countries and levies on sugar production within the Union. These are collectively known as "Traditional Own Resources" (TOR)
- contributions based on VAT: Essentially, the VAT resource is the amount yielded by applying a notional rate of 1% to a hypothetical harmonised VAT base, assuming an identical range of goods and services in each member state. The VAT base is calculated on the basis of a notional harmonised rate and reflects finally taxed expenditure across the EU. The base is capped at 50% of the member state's GNI. A call-up rate is applied to produce a member

states' VAT-based contribution. This is currently 0.3%, except otherwise noted in the Own Resources Decision

- GNI-based contributions: the amount due is calculated by taking the same proportion of each member state's GNI. As EU budgets must balance, 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.10 The figures referred to in pounds sterling for 2012-18 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[5]. The 2019 Euro figures have been converted into Sterling using the Sterling/Euro exchange rate on 31st December 2018, namely £1=€1.117905 (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.11 The UK's GNI-based contributions are abated (reduced) according to a formula set out in the Own Resources Decision. Broadly, this is equal to 66% of the difference between what the UK contributes to the EU Budget and its receipts from the EU Budget, subject to the following points:

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

[5] The annual average rate for 2012 is £1 = €1.233211; the annual average rate for 2013 is £1 = €1.177910; the annual average rate for 2014 is £1 = €1.240977; the annual average rate for 2015 is £1 = €1.377415; the annual average rate for 2016 is £1 = €1.220286; the annual average rate for 2017 is £1 = €1.1413; the annual average rate for 2018 is £1 = €1.30319.

A.12 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.13 The Commission is directly and solely responsible for calculating the UK's rebate. It calculates the rebate on the basis of a forecast contributions to the EU Budget and the UK's receipts from it. This is subsequently corrected in light of outturn figures.

A.14 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 2016 will take place in 2020.

A.15 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.

Annex B
Technical annex

Explanation of the difference between the government's cash flow outturn for the UK's net contribution for 2017 and the figures in the European Commission's EU Budget 2017 Financial Report

B.1 As set out in Chapter 3, paragraph 3.8, there is a difference between the UK government's figures for the cash flow outturn for the UK's net contribution for 2017 and the figures in the European Commission's EU Budget 2017 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 with the average exchange rate for 2017 of £1= €1.1413, the figures on cash flow outturn for the UK's net contribution for 2017 in the European Commission's EU Budget 2017 Financial Report break down as set out in Table B.1.

Table B.1: Cash flow outturn for the UK's net contribution for 2017 in the European Commission's EU Budget 2017 Financial Report

	(€ million)	(£ million)
UK gross contribution before rebate	18,695	16,380
UK rebate	-4,938	-4,326
UK receipts	-6,326	-5,543
UK net contribution	7,431	6,511

Source: European Commission's EU Budget 2017 Financial Report, HM Treasury calculations

B.3 The government's figure for the UK's net contribution in 2017 is £8,909 million.

B.4 A number of factors contribute to the difference between the two net contribution figures. The 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 figure includes receipts paid directly to the UK private sector. It is estimate that this accounted for around £1,459 million of the difference in 2017

- the UK's outturn figure is based on cash flow within the calendar year, whereas the European Commission figures attempt to match transactions to a particular EU Budget. When reconciling there may be other factors such as the exchange rate that can lead to differences between the outturns
- in 2016 Amending Budgets 4/2016, 5/2016 and 6/2016 were adopted on the 1st of December. This meant that associated changes were not implemented until 2017, the result of which is that the government's figures are some £944 million higher than if the Amending Budget changes had been implemented in 2016
- in 2017 Amending Budget 6/2017 was adopted on the 30 November 2017. This meant that associated changes were not implemented until 2018, the result of which is that the government's figures are some £1,994 million lower than if the Amending Budget changes had been made in 2017

B.5 These factors are set out in Table B2.

Table B.2: Reconciliation of the UK government's cash flow outturn figures for the UK's net contribution for 2017 with the figures in the European Commission's EU Budget 2017 Financial Report

(£ million)	
UK government outturn for 2017	8,909
Private sector receipts	-1,459
Late implementation, in January 2017, of Amending Budget Nos. 4/2016 - 6/2016	943
Late implementation, in January 2018, of Amending Budget No. 6/2017	-1,994
UK cash flow figure adjusted to reflect main differences compared to European Commission's figure	6,398
European Commission figure for 2016 outturn	6,511
Net difference due to other factors (e.g. exchange rate)	-112

Source: HM Treasury calculations and 2017 EU Budget Financial Report, European Commission

Explanation of the difference between the government's cash flow outturn for the UK's net contribution for 2018 and the figures in the European Commission's EU Budget 2018 Financial Report

B.6 As additionally set out in Chapter 3, paragraph 3.8, there is a difference between the UK government's figures for the cash flow outturn for the UK's net contribution for 2018 and the figures in the European Commission's EU Budget 2018 Financial Report. An explanation for this difference is set out in Table B.3, Table B.4 and paragraphs B.8 to B.9.

B.7 When converted with the average exchange rate for 2018 of £1= €1.1271, the figures on cash flow outturn for the UK's net contribution for 2018 in the European Commission's EU Budget 2018 Financial Report break down as set out in Table B.3

Table B.3: Cash flow outturn for the UK's net contribution for 2018 in the European Commission's EU Budget 2018 Financial Report

	(€ million)	(£ million)
UK gross contribution before rebate	21,430	19,013
UK rebate	-5,027	-4,460
UK receipts	-6,633	-5,885
UK net contribution	9,770	8,669

Source: European Commission's EU Budget 2018 Financial Report, HM Treasury calculations

B.8 The government's figure for the UK's net contribution in 2018 is £8,925 million.

B.9 A number of factors contribute to the difference between the two net contribution figures. The main causes for the differences are as follows:

- the UK figure includes only transactions between the EU Budget and the UK public sector, whereas the European Commission's figure includes receipts paid directly to the UK private sector. It is estimated that this accounted for around £1,459 million of the difference in 2017
- the UK's outturn figure is based on cash flow within the calendar year, whereas the European Commission figures attempt to match transactions to a particular EU Budget. When reconciling there may be other factors such as the exchange rate that lead to differences between the outturns
- in 2017 Amending Budget 6/2017 was adopted on the 30 November 2017. This meant that associated changes were not implemented until 2018, the result of which is that the government's figures are some

£1,994 million higher than if the Amending Budget changes had been made in 2017

- in 2018 Amending Budget 6/2018 was adopted on the 12 December 2018. This meant that associated changes were not implemented until 2019, the result of which is that the government's figures are some £651 million lower than if the Amending Budget changes had been made in 2018.

B.10 These factors are set out in Table B.4.

Table B.4: Reconciliation of the UK government's cash flow outturn for the UK's net contribution for 2018 with the figures in the European Commission's EU Budget 2018 Financial Report

(£ million)	
UK government outturn for 2018	8,925
Private sector receipts	-1,612
Late implementation, in January 2018, of Amending Budget Nos. 6/2017	1,994
Late implementation, in January 2019, of Amending Budget No. 6/2018	-651
UK cash flow figure adjusted to reflect main differences compared to European Commission's figure	8,656
European Commission figure for 2017 outturn	8,669
Net difference due to other factors (e.g. exchange rate)	-13

Source: European Commission's EU Budget 2018 Financial Report, HM Treasury calculations

Annex C
Tables

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

C.2 Table C.1 covers expenditure on the EU Budget commitments and payments by Heading in years 2012-2019 in euro figures.

C.3 Table C.2 covers expenditure on the EU Budget commitments and payments by Heading in years 2012-2019 in sterling figures.

C.4 Table C.3 covers UK contributions to, rebate and public sector receipts from the EU Budget in years 2012 - 2019.

Table C.1: Expenditure on the EU Budget Commitments and Payments by Heading in years 2012-2019 (€ million)

Appropriations	Commitments							
	2012	2013	2014	2015	2016	2017	2018	2019
1 Smart and Inclusive Growth	68,142	70,749	63,986	77,955	69,841	75,399	77,532	**80,627**
1a Competitiveness for Growth and Jobs	*15,389*	*15,641*	*16,484*	*17,552*	*19,010*	*21,312*	*22,000*	***23,435***
1b Economic, social and territorial cohesion	*52,753*	*55,108*	*47,502*	*60,403*	*50,831*	*54,087*	*55,532*	***57,192***
2 Sustainable Growth: natural resources	59,850	60,102	59,191	63,877	62,470	58,569	59,239	**59,642**
3 Security and Citizenship	2,754	2,197	2,172	2,522	4,292	4,284	3,493	**3,787**
4 Global Europe	9,404	9,315	8,423	8,711	9,167	10,437	10,069	**11,319**
5 Administration	8,280	8,431	8,405	8,660	8,951	9,395	9,666	**9,943**
TOTAL	148,428	152,048	142,690	162,273	155,277	159,831	160,696	**166,189**
Appropriations	**Payments**							
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
1 Smart and Inclusive Growth	60,287	69,127	65,863	66,854	59,291	49,393	66,663	**67,557**
1a Competitiveness for Growth and Jobs	*11,971*	*12,612*	*11,857*	*15,729*	*17,402*	*19,321*	*20,095*	***20,522***
1b Economic, social and territorial cohesion	*48,504*	*56,473*	*54,006*	*51,125*	*41,888*	*30,073*	*46,527*	***47,035***
2 Sustainable Growth: natural resources	58,016	58,036	55,959	55,979	54,972	54,121	56,041	**57,400**
3 Security and Citizenship	2,214	1,699	1,660	1,927	3,022	3,224	2,981	**3,527**
4 Global Europe	6,777	6,743	6,925	7,478	10,156	9,056	8,906	**9,358**
5 Administration	8,278	8,429	8,406	8,659	8,951	9,395	9,666	**9,945**
TOTAL [a]	135,758	144,451	139,034	141,280	136,642	126,771	144,768	**148,492**

Notes:
1. 2012-18 include all agreed Amending Budgets.
2. Column totals do not necessarily equal the sum of individual items due to rounding errors and spending not attributable to any heading.

Source:
Figures for 2012 to 2017 are taken from the European Commission's Reports on budgetary and financial management.
Figures for 2018 and 2019 are taken from the final agreed Amending Budget in each year.
European Commission Budget website: https://ec.europa.eu/info/strategy/eu-budget/documents/annual-budget_en

Table C.2: Expenditure on the EU Budget Commitments and Payments by Heading in years 2012-2019 (£ million)

Appropriations	Commitments							
	2012	2013	2014	2015	2016	2017	2018	2019
1 Smart and Inclusive Growth	55,256	60,063	51,561	56,595	57,233	66,064	68,789	**72,124**
1a Competitiveness for Growth and Jobs	*12,479*	*13,279*	*13,283*	*12,743*	*15,578*	*18,674*	*19,519*	***20,964***
1b Economic, social and territorial cohesion	*42,777*	*46,785*	*38,278*	*43,852*	*41,655*	*47,390*	*49,270*	***51,160***
2 Sustainable Growth: natural resources	48,532	51,024	47,697	46,375	51,193	51,318	52,558	**53,352**
3 Security and Citizenship	2,233	1,865	1,750	1,831	3,517	3,754	3,099	**3,387**
4 Global Europe	7,626	7,908	6,787	6,324	7,512	9,145	8,933	**10,125**
5 Administration	6,714	7,158	6,773	6,287	7,335	8,231	8,576	**8,894**
TOTAL	120,359	129,083	114,982	117,810	127,246	140,043	142,575	**148,661**
Appropriations	**Payments**							
	2012	2013	2014	2015	2016	2017	2018	2019
1 Smart and Inclusive Growth	48,886	58,686	53,074	48,536	48,588	43,278	59,145	**60,432**
1a Competitiveness for Growth and Jobs	*9,707*	*10,707*	*9,555*	*11,419*	*14,261*	*16,929*	*17,829*	***18,357***
1b Economic, social and territorial cohesion	*39,331*	*47,943*	*43,519*	*37,117*	*34,326*	*26,350*	*41,280*	***42,075***
2 Sustainable Growth: natural resources	47,045	49,270	45,093	40,641	45,048	47,420	49,721	**51,346**
3 Security and Citizenship	1,795	1,442	1,338	1,399	2,476	2,825	2,645	**3,155**
4 Global Europe	5,495	5,725	5,580	5,429	8,323	7,935	7,902	**8,371**
5 Administration	6,713	7,156	6,774	6,286	7,335	8,231	8,576	**8,896**
TOTAL	110,085	122,633	112,036	102,569	111,975	111,076	128,442	**132,831**

Notes:
1. 2010-16 includes all agreed Amending Budgets.
2. Column totals do not necessarily equal the sum of individual items due to rounding errors and spending not attributable to any heading.
Source:
Sterling figures are derived from the corresponding euro amounts in Table C.1 converted at the appropriate exchange rate (see Glossary).

Table C.3: United Kingdom contributions to, rebate, and public sector receipts from the EU Budget 2012-2019

	EUR Millions								GBP Millions							
GROSS CONTRIBUTIONS	2012	2013	2014	2015	2016	2017	2018	**2019**	2012	2013	2014	2015	2016	2017	2018	**2019**
Sugar levies	13	11	2	10	9	10	-3	**0**	10	9	2	7	7	9	-3	**0**
Customs Duties	2,703	2,557	2,775	3,192	2,997	3,610	2,943	**3,031**	2,192	2,171	2,236	2,318	2,456	3,163	2,611	**2,711**
VAT–based contributions	2,811	2,761	2,963	3,665	3,266	3,470	3,465	**3,316**	2,279	2,344	2,388	2,661	2,677	3,040	3,074	**2,966**
GNI-based contributions	14,012	15,899	15,539	19,288	14,468	13,872	16,080	**15,700**	11,362	13,497	12,521	14,003	11,856	12,154	14,267	**14,044**
VAT & GNI adjustments	-121	134	2,024	786	0	295	-2,824	**-869**	-98	114	1,631	571	0	258	-2,505	**-777**
United Kingdom rebate	-3,835	-4,328	-5,481	-6,768	-4,732	-6,429	-4,787	**-5,048**	-3,110	-3,674	-4,416	-4,914	-3,878	-5,633	-4,247	**-4,516**
Total Contributions	15,583	17,034	17,822	20,174	16,008	14,828	14,876	**16,132**	12,636	14,461	14,362	14,646	13,118	12,993	13,198	**14,430**
PUBLIC SECTOR RECEIPTS																
EAGF	3,395	3,236	3,395	3,251	2,766	3,103	3,085	**3,143**	2,753	2,747	2,736	2,361	2,267	2,719	2,737	**2,812**
EAFRD	359	729	529	637	488	722	567	**761**	291	619	426	462	400	633	503	**681**
European Regional Development Fund	540	350	1,311	625	439	327	763	**595**	438	297	1,057	454	360	286	677	**532**
European Social Fund	721	290	331	780	376	162	333	**993**	585	246	266	566	308	142	295	**888**
Other Receipts	126	102	122	55	192	347	69	**84**	102	86	98	40	157	304	61	**76**
Total Receipts	5,141	4,707	5,688	5,348	4,261	4,661	4,816	**5,576**	4,169	3,996	4,583	3,883	3,492	4,084	4,273	**4,988**
Net Public Sector Contributions	10,442	12,327	12,135	14,825	11,747	10,168	10,060	**10,555**	8,467	10,465	9,779	10,763	9,626	8,909	8,925	**9,442**

1. For all years, the amounts for the UK's gross contribution in this table reflect payments made during the calendar year, not payments to particular EU Budgets. They differ from the figures for gross contributions in Table 2 in that these figures, drawn from European Commission documents, relate to payments to particular EU Budgets.

2. Prior to 2010, Sugar Levies row also includes figures for duties on agricultural products.

3. Euro figures in this table have been converted from sterling using the appropriate exchange rate (see glossary).

4. The figures for 2015 are based on the Office of Budget Responsibility Forecast and HM Treasury calculation. Those for earlier years are outturn.

5. The VAT and GNI adjustment figure shown in 2014 includes £1.7 billion for which the UK has made cash payments in two instalments in 2015, but the full amount is accrued to 2014, as set out in paragraph 4.138 in the Office for Budget Responsibility's December 2014 Economic and Fiscal Outlook.

6. Because of rounding, the column totals do not necessarily equal the sum of the individual items.

Annex D

Report on the use of EU funds in the UK

Background

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

D.2 The publication of this report strengthens Parliamentary scrutiny of the financial relationship between the EU and the UK government. It is compiled by working with Paying Agencies and Managing Authorities. The Report draws on well-established data collection and assurance systems and processes.

D.3 The government is committed to maintaining the greatest possible transparency on the use of EU funds at an aggregated level by publishing information such as this.

Responsibilities of the UK Parliament and Devolved Administrations

D.4 As highlighted in Chapter 5, in accordance with the devolution settlement, relations with the EU are the responsibility of Parliament and the government of the United Kingdom, as the member state. Responsibility for implementing EU obligations relating to devolved matters lies with the devolved administrations. The proper administration of EU Funds in Northern Ireland, Scotland and Wales is a matter for the relevant devolved administration. This report is prepared without prejudice to the devolution of responsibilities.

D.5 The Treasury has assumed responsibility for developing the format of this report and for collating the financial data provided by Paying Agencies and Managing Authorities which it includes. Managing Authorities are the bodies which have responsibility for managing the payment of EU programme funds to final beneficiaries in the UK.

D.6 Paying agencies and Managing Authorities, however, remain accountable for the propriety of the reported spending, which is publicly disclosed in their annual report and accounts 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 (C&AG) has not been invited to audit this report although the individual annual report and accounts, from which the source data is collated, are audited by the C&AG.

Boundary of the report

D.7 The report shows expenditure on co-managed EU schemes in the UK and the corresponding income due from the EU. The main schemes for which the EU and UK share management responsibility are the disbursement of Common Agricultural Policy Funds and the European Structural and Investment Funds, where the UK pays beneficiaries on behalf of the EU.

D.8 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] Those transactions are not reported as income and expenditure of the relevant Managing Authority
- the purchase of intervention stocks with UK funds which are accounted for in the financial statements of the Department for Environment, Food and Rural Affairs (DEFRA)[2]

Management of EU funded schemes

D.9 The Treaty establishing the EU provides the basic framework for its Budget. The Budget includes a number of separate funds, including the European Agricultural Guarantee Fund (EAGF), the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD and sometimes referred to as the second pillar of Common Agricultural Policy) and the European Maritime and Fisheries Fund (EMFF).

D.10 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.11 The Commission can impose disallowance on Managing Authorities for failing to correctly apply EU Regulations in managing and administering EU schemes. In such circumstances the EU reduces the amount paid to the UK.

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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 EU 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.

(a) Agricultural Policy Funds

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

D.12 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 compliance with EU legislation. 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.13 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.

(b) European Structural and Investment Funds

D.14 The European Structural and Investment Funds are the financial tools set up to implement cohesion policy in the EU, and include ERDF, ESF, EAFRD and EMFF. For more details on these programmes please refer to the Glossary of this document.

D.15 The Managing Authorities are responsible for the control of European Structural and Investment Fund expenditure. Working alongside each fund's Managing Authority, the fund's Certifying Authority ensures that all systems are subject to regular examination by the Audit Authority. The Audit Authority results strengthen procedures during the implementation of programmes and provide assurance as to the accuracy, completeness and regularity of expenditure, certified to the European Commission.

D.16 The Managing Authorities are responsible for the control of European Structural and Investment Fund expenditure. Working alongside each fund's Managing Authority, the fund's Certifying Authority ensures that all systems are subject to regular examination by the Audit Authority. The Audit Authority results strengthen procedures during the implementation of programmes and provide assurance as to the accuracy, completeness and regularity of expenditure, certified to the European Commission.

Timing of the expenditure and the related EU funding

D.17 Managing Authorities are required to account for expenditure on EU-funded schemes and the related funding from the EU on an accruals basis under International Financial Reporting Standards (IFRS) as applied to the public sector context by the Government Financial Reporting Manual (FReM). By contrast, the public sector receipts in Table C.3 are reported on a cash basis.

D.18 There is normally a time lag between payment to beneficiaries and settlement of claims by the EU. The UK Exchequer therefore bears the cost of the programme until EU funding is received. Expenditure is recognised as it is incurred, with a matching receivable (debtor) from the EU. The receivable is extinguished when the EU approves the subsequent claim and the release of funds to the UK.

D.19 The final settlement of claims by the EU may give rise to adjustments following the closure process or disallowance (see paragraphs D.30-D.31 below). The European Commission may make such adjustments several years after funds have been paid out by Managing Authorities to recipients. The Expenditure Statement below also includes provisions for possible future adjustments. A provision is made where it is probable that the EU will disallow expenditure and not reimburse the UK (see paragraph D.30 below).

Management of EU funded schemes

Expenditure on EU funded schemes

D.20 This section of the document covers the expenditure on EU funded schemes between 2010-11 and 2018-19

D.21 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.22 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.23 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 disallowance, foreign exchange gains or losses and withdrawals from claims.

D.24 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 disallowance 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.25 The Expenditure Statement (Table D.1) shows gross expenditure on EU-supported schemes from 2010 -11 to 2018-19. After allowing for foreign exchange variations and adjustments to claims, the amount reimbursable by the EU (i.e. net expenditure) was £3.83 billion in 2017 -18 and £5.43 billion in 2018-19, 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. A breakdown of expenditure by scheme is provided in Tables D.3 to D.4. This table shows the increase in net expenditure between 17-18 and 18-19 is largely due to European Social Fund gross expenditure and European Regional Development Fund gross expenditure, which increased year on year.

Accounting policies

Basis of preparation

D.26 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.

Foreign currency translation

D.27 The European 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.

The effects of changes in Foreign Exchange Rates

D.28 Foreign exchange rates gains and losses are realise where there are variations in exchange rates between between payments incurred and reimbursements. For example, for ERDF, ESF and EMFF, there is often an exchange rate difference due to the lag between the date when EU funding is paid out by the Managing Authority and the date when this payment is subsequently checked and registered by the Certifying Authority, on which basis the EU reimburses the expenditure incurred. Such gains and losses are recognised in the Expenditure Statement (Table D.1). Unrealised gains and losses arising from the revaluation of assets and liabilities at the exchange rate current at the Statement of Financial Position 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.

Disallowance provision and contingent liabilities

D.29 Probable disallowance 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.

Table D.1: Expenditure Statement for the years ended 31 March 2011 to 31 March 2019 (prior years restated)

£ thousand

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Gross expenditure on EU supported projects	4,397,505	4,773,977	4,216,794	4,345,271	4,254,226	3,361,171	3,774,481	3,812,404	5,286,320
Provisions created in year	(75,006)	(92,647)	(34,850)	(1,832)	(21,459)	(32,568)	(120)	0	(9,488)
Provisions released in year	19,856	22,817	10,495	60,452	11,770	335	1,198	8,692	169,701
Realised forex gain/(loss)	(35,739)	(23,617)	114,930	2,019	(30,005)	(12,012)	2,491	(2,271)	6,633
Unrealised forex gain/(loss)	2,779	51,182	(102,488)	(13,637)	51,733	(163,305)	(4,158)	16,470	(14,629)
Withdrawn from EU claim	(49,743)	(18,063)	(35,841)	(8,036)	1,171	2,858	(26,450)	(1,870)	(2,404)
Net expenditure reimbursable by the EU	4,259,652	4,713,649	4,169,040	4,384,237	4,267,436	3,156,479	3,747,442	3,833,425	5,436,133

* 2018-19 balances include the latest available information. Some Managing Authority returns may be based on unaudited financial statements

Table D.2: Statement of Assets and Liabilities as at 31 March 2011 to 31 March 2019 (prior years restated)

£ thousand

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Assets									
Advances to beneficiaries	219,642	25,594	17,340	26,143	24,788	26,640	42,262	148,886	53,479
EU funds receivable	1,931,886	1,763,336	1,763,235	2,314,084	1,622,625	2,146,918	1,219,556	1,492,592	1,754,606
Other assets	1,798	254,299	207,990	258,436	281,893	484,815	408,996	450,327	199,554
	2,153,326	2,043,229	1,988,565	2,598,663	1,929,306	2,658,373	1,670,814	2,091,805	2,007,639
Liabilities									
EU funds paid on account	(1,938,419)	(1,860,340)	(997,802)	(655,634)	(530,013)	438,265	(379,520)	(667,295)	(241,104)
Amounts payable to beneficiaries	(140,863)	(183,401)	(186,053)	(148,459)	(73,928)	(328,505)	(424,239)	(577,389)	(558,005)
Repayable to EU	(3,525)	(2,697)	(238,694)	(543,684)	(737,127)	(685,287)	(645,931)	(557,983)	(486,299)
Provision for disallowance	(177,886)	(212,390)	(214,681)	(100,154)	(5,585)	(34,180)	(245,558)	(184,080)	(503,259)
Other liabilities	(24,607)	(66,734)	285	517	517	(2,885)	(151)	(12,951)	(24,264)
	(2,285,300)	(2,325,562)	(1,636,945)	(1,447,414)	(1,346,136)	(612,592)	(1,695,399)	(1,999,698)	(1,812,931)
Net Assets / (Liabilities)	(131,974)	(282,333)	351,620	1,151,249	583,170	2,045,781	(24,585)	92,107	194,708

*2018-19 balances include the latest available information. Some Managing Authority returns may be based on unaudited financial statements

Table D.3: Analysis of Net Expenditure by EU Scheme - 2017-18

£ thousand

	Agricultural Funding		European Social Fund		European Regional Development Fund		Other		Total	
	England	DAs	England	DAs	England	DAs	England	DAs	England	DAs
Gross expenditure in the United Kingdom	2,108,971	1,037,744	221,161	118,053	130,180	164,043	20,102	12,150	**2,480,414**	**1,331,990**
Total disallowance provided for	0	0	0	0	0	0	0	0	**0**	**0**
Total disallowance released	8,692	0	0	0	0	0	0	0	**8,692**	**0**
Total foreign exchange gains/(losses)	5,043	111	(5,935)	(270)	15,839	308	71	(968)	**15,018**	**(819)**
Total withdrawn from EU claim	0	0	0	(499)	(1,371)	0	0	0	**(1,371)**	**(499)**
Net expenditure reimbursable by EU	2,122,706	1,037,855	215,226	117,284	144,648	164,351	20,173	11,182	**2,502,753**	**1,330,672**
Total Net expenditure reimbursable by EU	3,160,561		332,510		308,999		31,355		**3,833,425**	

Table D.4: Analysis of Net Expenditure by EU Scheme 2018-19*

£ thousand

	Agricultural Funding		European Social Fund		European Regional Development Fund		Other		Total	
	England	DAs	England	DAs	England	DAs	England	Das	England	DAs
Gross expenditure in the United Kingdom	2,441,829	1,130,073	799,573	103,341	574,283	195,003	24,580	17,638	**3,840,265**	**1,446,055**
Total disallowance provided for	(9,488)	0	0	0	0	0	0	0	**(9,488)**	**0**
Total disallowance released	169,581	120	0	0	0	0	0	0	**169,581**	**120**
Total foreign exchange gains/(losses)	1,161	(109)	(12,693)	4,110	(4,685)	(379)	3,752	847	**(12,465)**	**4,469**
Total withdrawn from EU claim	0	0	0	(444)	(1,528)	(432)	0	0	**(1,528)**	**(876)**
Net expenditure reimbursable by EU	2,603,083	1,130,084	786,880	107,007	568,070	194,192	28,332	18,485	**3,986,365**	**1,449,768**
Total Net expenditure reimbursable by EU	3,733,167		893,887		762,262		46,817		**5,436,133**	

*2018-19 balances include the latest available information. Some Managing Authority returns may be based on unaudited financial statements.

Provisions of future financial corrections (disallowances)

D.30 As previously stated in Chapter 5, a disallowance is a financial correction imposed by the European 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.31 The European Commission may identify erroneous payments or deficiencies in the administration of schemes, and consequently can disallow expenditure. In the case of perceived systematic deficiencies, the European Commission can impose flat-rate disallowance at the rate of 2%, 3%, 5%, 7% or 10% (or higher in some circumstances) of annual expenditure, depending on the severity of the failings. The EU will not reimburse the UK for the expenditure incurred. The costs then fall on the Exchequer, unless the amount can be recovered from the beneficiary. The ultimate financial impact on the UK taxpayer will, however, be less than this, due to the operation of the rebate system. For more details on the rebate system please see the Glossary of this document.

D.32 As set out in Chapter 5, table D.4 and D.5 show that the majority of provisions in 2018-19 related to agricultural funding; this is largely due to the size of the fund and the complexity of the regulations. The current CAP disallowance strategy reflects the latest intelligence from these processes and will continue to be updated. In 2018-19, there were also some disallowance provisions relating to the European Social Fund, but these continue to be relatively small.

Table D.5: Provision in England and the DAs for future financial corrections 2018-2019

£ thousand

	Agricultural Funding		European Social Fund		European Regional Development Fund		Other		Total	
	England[1]	DAs[2]	England[3]	DAs[4]	England[5]	DAs[6]	England	DAs	England	DAs
As at 1 April 2018	(184,158)	(120)	0	(1,000)	0	0	0	0	**(184,158)**	**(1,120)**
Created during the year	(9,488)	0	0	0	0	0	0	0	**(9,488)**	**0**
Released in year	169,581	120	0	0	0	0	0	0	**169,581**	**120**
Utilised	801	0	0	0	0	0	0	0	**801**	**0**
As at 31 March 2019	**(23,264)**	**0**	**0**	**(1,000)**	**0**	**0**	**0**	**0**	**(23,264)**	**(1,000)**
Total as at 31 March 2019	**(23,264)**		**(1,000)**		**0**		**0**		**(24,264)**	

Notes: In England: agricultural funding is primarily the responsibility of the Department for Environment, Food & Rural Affairs (the European Maritime and Fisheries Fund, included in agricultural funding figures, is the responsibility of the Marine Management Organisation, an executive non-departmental public body sponsored by DEFRA); the European Social Fund is the responsibility of the Department for Work and Pensions; the European Regional Development Fund is the responsibility of Department for Communities and Local Government. 'Other' contains small funds, such as the Asylum, Migration, and Integration Fund (AMIF), which is the responsibility of the Home Office. As at 31 March 2019, there were no provisions relating to 'Other' funds). The DAs are responsible for implementing EU obligations relating to devolved matters.

1 https://www.gov.uk/government/publications/defras-annual-report-and-accounts-2018-to-2019 (this includes the European Maritime and Fisheries Fund)

2 https://www.gov.scot/publications/scottish-government-consolidated-accounts-year-ended-31-march-2019/

3 https://www.gov.uk/government/publications/dwp-annual-report-and-accounts-2018-to-2019

4 https://www.gov.scot/publications/scottish-government-consolidated-accounts-year-ended-31-march-2019/

5 https://www.gov.uk/government/publications/mhclg-annual-report-and-accounts-2018-to-2019

6 https://www.gov.scot/publications/scottish-government-consolidated-accounts-year-ended-31-march-2019/

Table D.6: Provision in England the DAs for future financial corrections 2017-2018

£ thousand

	Agricultural Funding		European Social Fund		European Regional Development Fund		Other		Total	
	England[7]	DAs[8]	England[9]	DAs[10]	England[11]	DAs[12]	England	DAs	England	DAs
As at 1 April 2017	(244,438)	(120)	0	(1,000)	0	0	0	0	**(244,438)**	**(1,120)**
Created during the year	0	0	0	0	0	0	0	0	**0**	**0**
Released in year	8,692	0	0	0	0	0	0	0	**8,692**	**0**
Utilised	51,588	0	0	0	0	0	0	0	**51,588**	**0**
As at 31 March 2018	**(184,158)**	**(120)**	**0**	**(1,000)**	**0**	**0**	**0**	**0**	**(184,158)**	**(1,120)**
Total as at 31 March 2018	**(184,278)**		**(1,000)**		**0**		**0**		**(185,278)**	

Note: As at 31 March 2018, there were no provisions relating to 'Other' funds (as at 1 April 2017, provisions relating to 'Other' funds represented less than 1% of all disallowance provisions).

7 https://www.gov.uk/government/publications/defras-annual-report-and-accounts-2017-to-2018 (this includes the European Maritime and Fisheries Fund)

8 https://www.gov.scot/publications/scottish-government-consolidated-accounts-year-ended-31-march-2018/

9 https://www.gov.uk/government/publications/dwp-annual-report-and-accounts-2017-to-2018

10 https://www.gov.scot/publications/scottish-government-consolidated-accounts-year-ended-31-march-2018/

11 https://www.gov.uk/government/publications/mhclg-annual-report-and-accounts-2017-to-2018

12 https://www.gov.scot/publications/scottish-government-consolidated-accounts-year-ended-31-march-2018/

Annex E
Impact of EU Withdrawal

Overview

E.1 The Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community, signed on 24 January 2020 and now in effect[1], sets out the financial settlement that was reached on the UK's rights and obligations as a departing Member State.

E.2 The settlement is based on three agreed principles that ensure a fair deal for UK taxpayers:

- the UK will not finance any commitments that it would not have funded if it had remained a Member State, and will receive a share of any financial benefits that would have fallen to it had it remained a Member State
- the Withdrawal Agreement establishes the UK's share of EU obligations in the settlement. For 2020, the share will be based on the current methodology for determining the UK's annual EU budget contributions. For payments after the end of the Transition period, it will be based on the UK's average share of contributions to the EU during the current Multiannual Financial Framework. In other words, the UK's share will be the average of its share of the EU budget (taking into account the rebate) over 2014-20
- the UK will not be required to incur expenditure earlier than would have been the case had it remained a Member State, although the Withdrawal Agreement allows for exceptions to be made in a few specific cases where it might be in both sides' interests to settle costs early. This is particularly relevant for pensions, where costs will decline steadily over a long-term period

E.3 This annex sets out the government's revised point estimate of the financial settlement based upon the UK's departure from the EU on 31 January 2020, which remains within the range of HMT's original estimate, adjusted for the Article 50 extension. It provides a summary of the financial settlement and its estimated cost, alongside costs outside the financial settlement that are set out in the Withdrawal Agreement. It also explains how different approaches can be taken to the presenting the 'cost' of the settlement, depending on the accounting or reporting framework used and the assumptions and methods used to estimate values. The approach will be

[1] https://www.gov.uk/government/publications/new-withdrawal-agreement-and-political-declaration

different in specific government publications (e.g. HM Treasury Accounts; Whole of Government Accounts or the Office of Budget Responsibility's Economic and Financial Outlook).

E.4 The financial settlement addressed mutual obligations that arose primarily as a consequence of the UK's participation in the EU budget, and commitments related to the UK's broader membership of the EU. It did not cover the costs of facilitating withdrawal or new administrative arrangements that might have resulted from the UK's exit. There was also no obligation in the financial settlement to pay for the relocation of EU bodies previously located in the UK.

E.5 The financial settlement did not cover costs that might be associated with the UK's future relationship with the EU. These decisions are subject to negotiations on our future relationship with the EU, and future decisions of Parliament.[2]

E.6 The financial settlement has three main components:

- first, the UK will continue to participate in EU annual budgets during 2020. This means that the UK will continue to make its contribution and get receipts from EU budget programmes under the normal rules
- second, the UK will then pay its share of the EU's outstanding commitments at the end of 2020 (the so-called RAL) and again will benefit from some of these commitments
- third, the UK will pay a share of the EU's liabilities as at the end of 2020, and any materialising contingent liabilities, and in return will benefit from a share of relevant EU assets

The European Union (Withdrawal Agreement) Act 2020

E.7 The European Union (Withdrawal Agreement) Act 2020 (WAA) implemented the Withdrawal Agreement into domestic law. It received Royal Assent on 23 January 2020.

E.8 Section 20 of the WAA on financial provisions allows the government to meet the financial obligations set out in the Withdrawal Agreement. The legislative mechanism in the Act is a standing service provision until 31 March 2021. The Act does not grant payment authority relating to any future agreements between the UK and EU.[3]

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[2] The terms of any financial contribution to the EU consistent with the Political Declaration is a matter for future negotiations. The government published its negotiating mandate The Future Relationship with the EU The UK's Approach to Negotiations in February 2020 and this is addressed from Paragraph E.84, below.

[3] European Union (Withdrawal Agreement) Act 2020 Section 20(2) The standing services provision will only apply to sums required to be paid in respect of the traditional own resources of the EU after 31 March 2021.

Participation in the European Union annual budget in 2020

E.9 Under the financial settlement, the UK will contribute to the EU's budget for the rest of 2020, which covers the remainder of the Transition period. The UK will benefit from the implementation of the budget as if it had remained a Member State over this period. The UK will continue to draw advantages from the normal management of projects and programmes funded through the current Multiannual Financial Framework until their closure, whether they are managed by the UK government (such as the European Regional Development Fund) or directly allocated to beneficiaries from EU institutions (such as Horizon 2020).

E.10 The Withdrawal Agreement guarantees that any amendments made to the Multiannual Financial Framework after withdrawal will not apply to the UK, insofar as they impact upon the UK's financial contributions and the UK will not be obliged to contribute to any additional funding beyond what is set out in the Withdrawal Agreement. The UK will also be unaffected by any changes made after withdrawal to the core rules on budget revenue in the Own Resources Decision which impact on the UK's financial contributions. This is to protect the UK from any such changes that are made now that we have left.

E.11 UK contributions to the EU Budget over 2020 will be paid from the Consolidated Fund, in the same way as the UK's contribution while we were a Member State. Similarly, individual departments that administer receipts and do not act purely as an agent of the EU, will continue to account for these receipts in their resource accounts.

EU outstanding budget commitments

E.12 A normal consequence of the EU's multiannual approach to spending is that many payments are made some years after a commitment is made. This is because the EU budget finances projects that run over multiple years, and which are subject to financial controls and programme conditionality. As a result, at any given time there is a stock of outstanding commitments that are yet to be paid – referred to as reste à liquider or RAL. The Withdrawal Agreement sets out that the UK will pay its share of these commitments as at 31 December 2020 as these commitments fall due. The UK will also benefit from some of these commitments, since it will benefit from EU programmes committed to under the Multiannual Financial Framework 2014-20 until the closure of those programmes.

Assets and liabilities

E.13 The UK will pay its share of the EU's liabilities as at 31 December 2020, and will benefit from a share of EU assets in a number of ways. In some cases, for example property and buildings, the asset reduces or removes a liability that might otherwise have fallen to the UK. In others, for example investment assets associated with EU guarantees, the UK will get a share of the profits and original investment as they mature.

E.14 The most significant residual liabilities are in relation to the pensions and other employee benefits of the members and staff of the European institutions. The UK will contribute towards those pension rights accrued on or before 31 December 2020. The UK will pay its share of these pension rights as the costs fall due to the EU, unless the UK decides to settle this early.

E.15 The financial settlement also includes a number of contingent liabilities, most of which were reported to Parliament as remote contingent liabilities when the UK was a Member State. These fell outside the scope of international accounting standards (IAS 37 on Provisions, Contingent Liabilities and Contingent Assets) because the possibility of an outflow of resources is remote.

E.16 In most cases the contingent liabilities that remain under the financial settlement will be limited to those that the EU has taken on up to the date of withdrawal. The exception will be costs associated with legal cases related to the budget and linked policies and programmes, which will be limited to cases where the facts relate to the period of the UK's participation in the EU budget (before the end of 2020).

E.17 Many of the contingent liabilities relate to guarantees on EU and European Investment Bank (EIB) financial operations and under the financial settlement the UK obtains a share of the associated guarantee funds the EU accumulated to meet potential calls on these underlying operations. To the extent the UK's share of these guarantee funds is not drawn upon to meet calls on the financial operations the UK will receive a positive return from these instruments.

E.18 In addition, the UK's EIB paid-in capital of €3.5 billion will be returned over 12 years, starting in the year of withdrawal. This will be made in 11 yearly instalments of €300 million and the final reimbursement will cover the balance of €195,903,950. The UK will maintain a two-part contingent liability in respect of the stock of outstanding EIB operations at the point of the UK's withdrawal, which will decrease in line with the stock. Under the terms of the EU Withdrawal Act the return of the UK's EIB paid-in capital will remain an asset of the Consolidated Fund, unless the asset is transferred to HM Treasury.

E.19 The Bank of England received a refund of its contribution to the European Central Bank's (ECB) paid-up share capital of €58 million (£49 million). Contributions to the ECB are non-refundable and, as a non-euro member, the Bank of England was not entitled to any dividends, the contribution was derecognised in prior years as the fair value of the holding had been assessed as £ nil. The contribution refund has been recognised as income within sundry income

Cost of the financial settlement

E.20 Following the publication of the Joint Report from the Negotiators of the European Union and the United Kingdom government in December 2017, the government provided a reasonable central estimate of the size of the financial settlement of €40-45 billion or £35-39 billion based on the exchange rate at the time.

E.21 The financial settlement was originally agreed in December 2017 on the assumption that the UK would leave the EU on 29 March 2019. Due to the extensions to Article 50, the cost of the settlement will be different to the original estimate, as some UK and EU payments that would originally have been paid post-withdrawal were instead paid while the UK remained a Member State. The new estimate is, however, reconcilable with the original estimate when taking these payments into account.

HM Treasury's updated estimate

E.22 In January 2018, the then Chancellor set out a reasonable central estimate for the financial settlement to the Treasury Select Committee. This range valued the settlement at £35-39 billion. Treasury's modelling at the time was consistent with the estimate provided alongside the Joint Report. Since the original estimate, the Treasury has continued to update and improve its modelling, utilising new data and refining assumptions, such as new EU expenditure plans. The key changes since January 2018 are:

- new budgetary information – since January 2018 the EU have published two new annual budgets and provided more data on the implementation of expenditure. All information as of 31/3/2020 has been incorporated to provide the latest estimate of the settlement
- new accounts information – the Treasury's most recent estimate incorporates information the EU have provided in their consolidated annual accounts. These figures inform the 'Assets and Liabilities' component of the financial settlement
- improved modelling – The Treasury have been working alongside the Government Actuary Department (GAD) to develop more accurate and sophisticated modelling of certain articles in the Withdrawal Agreement, namely Article 142 (Pensions), and Article 143 and 144 (Financial Instruments)

E.23 The latest estimates are calculated as point estimates. Table E.1 provides a more detailed component breakdown of the Treasury's most recent estimate.

Table E.1: Composition of the financial settlement € billion (£ billion)

Component of the settlement €billion (£billion[1])	Gross payments	Receipts (from EU programmes and assets)	Net	Time period
Budgetary Contributions to end 2020	16.3 (14.5)	-7.2 (-6.4)	9.1 (8.1)	2020
RAL from end 2020	34.9 (30.9)	-11.7 (-10.3)	23.2 (20.6)	2021-26
Assets and Liabilities	9.4 (8.3)	-7.6 (-6.8)	1.7 (1.5)	2020-2065
Total settlement	**60.6 (53.7)**	**-26.5 (-23.5)**	**34.1 (30.2)**	**-**

[1] Based on the spot rate euro/sterling exchange rate on 31st March 2020. The rate was £1 = €1.13.

E.24 Table E.2 provides a breakdown of the main asset and liability items referred to in table E.1. The largest item is the UK's share of the EU's pension liabilities. The European Fund of Strategic Investments and Guarantee Fund for External Action refer to guarantee funds held by the EU in respect of their contingent liabilities for lending undertaken by other parties. As set out in table E.4, the UK also stands behind a share of those contingent liabilities.

Table E.2: Breakdown of assets and liabilities – HMT new point estimate as at 31st March 2020

Component	Asset (€billion)	Liability (€billion)	Net (€billion)	Net (£billion)
European Investment Bank paid in capital	-3.5	-	-3.5	-3.1
Financial instruments[1]	-1.9	0.0	-1.9	-1.7
Other Assets and Liabilities[2]	-2.2	0.0	-2.2	-1.9
Pensions Liability	-	9.3	9.3	8.3
Total	**-7.6**	**9.4**	**1.7**	**1.5**

[1] This includes all financial instruments covered by Article 143 and 144 of the Withdrawal Agreement, which includes provisioning funds associated with the European Fund for Strategic Investments and the Guarantee Fund for External Action and EU programme guarantees that have been fully provisioned by the EU Budget (e.g. InnovFin).

[2] Includes UK share of the 2020 EU budget surplus (Art 136), return of ECB capital (Art 149), financial corrections (Art 140), European Coal and Steel Community in Liquidation (Art 145), EU investment in the European Investment Fund (Art 146).

- In addition to the assets and liabilities mentioned above there a number of contingent liabilities, such as in relation to the EIB and financial instruments covered in Table A.5

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

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

E.25 The new estimate is presented in Table E.3 to enable comparison with the original reasonable central range. Net contributions during the Article 50 extension are separately identified to support comparison on a like-for-like basis. The new point estimate of £30.2 billion in Table E.1, adjusted for Article 50 extension, falls within the range of the original reasonable central estimate.

Table E.3: Comparison of original range to new HM Treasury point estimate

Component of the settlement (billion)	Original Range	Treasury point estimate (31st March 2020)
Net Budgetary Contributions to end 2020	€17-18	€17.5
Of which: Contributions over Article 50 Extension	-	€8.4[1]
Contributions over Transition Period	-	€9.1
RAL (net) from end 2020	€21-23	€23.2
Assets and Liabilities	€2-4	€1.7
Original Settlement Range	**€40-45**	**€42.5**
	£35-39	**£37.6[2]**

[1]Estimated contributions and receipts, sent and received by the UK over the Article 50 Extension, April 2019 - January 2020 (£7.4 billion). Subtracting £7.4 billion in net payments from the £37.6 billion point estimate at 31 March 2020 gives the £30.2 billion net cost of the financial settlement set out in table E.1.

[2]Original range is based on spot rate euro/sterling exchange rate at the time of the Joint Report in December 2017. The Treasury sterling point estimate at 31st March 2020 is based on the spot rate euro/sterling exchange rate on 31st March 2020. The rate on both days was £1 = €1.13.

Treatment of the financial settlement in government accounts

E.26 The UK's contributions to the EU Budget in 2020 will, as they did when the UK was a member state, be accounted for in the Consolidated Fund accounts. Payments to the EU after 31st March 2021[4] will be accounted for in HM Treasury's Accounts. These include our obligation to outstanding commitments and liabilities, as well as accounting for the return of the UK share of EU assets.

E.27 Payments of receipts from the EU to UK entities are treated in national and government accounts in different ways, depending on whether a government body administers those receipts. Receipts that are administered by a government body are classified as public sector receipts in public expenditure statistics and are typically reported in the administering

[4] With the exception of payments related to Traditional Own Resources related to the period up to the end of 2020, in accordance with s.20 of the European Union Withdrawal Agreement Act 2020.

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

E.28 HM Treasury Accounts for 2019-20 have not yet been published. The Treasury will be required to recognise a provision in its annual accounts for 2019-20 representing its liability for the amounts it will need to pay to the EU after 31 March 2021. This will include, for example, the UK's share of the EU's outstanding commitments at the end of 2020 (the so-called RAL). This will not reflect the complete financial settlement and will therefore not present the 'cost' of the financial settlement. HM Treasury accounts will also disclose other contingent items relating to EU financial obligations covered by the Withdrawal Agreement.

E.29 The return of the UK's paid in capital in the European Investment Bank will, at this time, continue to appear in the Consolidated Fund accounts rather than those of HM Treasury because it is an asset of the Consolidated Fund. However, the contingent liability the UK maintains under the Withdrawal Agreement will be included in HM Treasury accounts in respect of any potential call after 31st March 2021 as any such call after this point would have to be funded from HM Treasury's Supply Estimates.

E.30 HMT and other departmental resource accounts are consolidated into the Whole of Government Accounts (WGA). The UK's contributions to the EU budget are recognised in the WGA as a grant expense as the amount payable to the EU after the UK's rebate has been applied. EU grants and subsidies paid by the UK government to third-party recipients are also recognised as a grant expense but the EU reimburses the UK for this expenditure.

E.31 The UK's shareholding in the European Investment Bank is recognised as a financial asset and remote contingent liabilities relating to the UK's membership are also disclosed in WGA. However, UK customs duties remitted to the EU (called Traditional Own Resources) are excluded from WGA because under the accounting standards the UK government is judged to be acting as the agent of the EU in collecting these revenues.

E.32 Accordingly, this annex provides a more complete view of the financial settlement, including both remittances to the EU and receipts which would not otherwise appear in government accounts.

Contingent liabilities

E.33 The table below sets out EU related contingent liabilities disclosed as remote contingent liabilities in the Consolidated Fund Accounts. Under the terms of the Withdrawal Agreement, the UK will maintain these contingent liabilities to the EU. However, some of the items (e.g. the European Fund for Strategic Investments) are backed by provisioning funds to meet calls on the associated EU guarantees. Under the terms of the Withdrawal Agreement the UK's share of these contingent liabilities and the associated assets are treated together. Where the UK share of the guarantee funds proves more than sufficient to meet calls on operations approved before UK exit then the UK will ultimately receive a net financial benefit. Where the funds prove insufficient the UK will make further payments to meet the shortfall and the UK will benefit from any subsequent recoveries.

Table E.4: EU related contingent liabilities from the Consolidated Fund Accounts 2018-2019

(£million)	At 31 March 2019	(Restated) At 31 March 2018
EIB: Callable capital subscription	30,643	31,288
European Financial Stabilisation Mechanism	6,268	6,740
Balance of Payments Facility	411	607
Third countries	2,099	2,466
European Fund for Strategic Investments	875	479
Other (macro-financial assistance, EIB lending, Euratom)	210	271
Total Loans Guaranteed by the EU Budget	9,863	10,563

Source: Consolidated Fund Account 2018-19

E.34 Further details on these remote contingent liabilities are set out in the Consolidated Fund Accounts 2019-20. HM Treasury Accounts 2019-20 will also provide information on contingent liabilities related to the financial settlement.

OBR forecast

E.35 Since March 2018, the OBR have produced an estimate of the size of the financial settlement at each Spring Statement/Autumn Budget. This estimate is reported in their Economic and Fiscal Outlook (EFO), which is laid before Parliament. The most recent estimate was published in the March 2020 EFO and stood at £32.9 billion.[5]

[5] Office for Budget Responsibility, Economic and fiscal outlook, March 2020, CP230 https://cdn.obr.uk/EFO_March-2020_Accessible.pdf

E.36 There are some important differences between the OBR forecast and the Treasury's estimate.

- **modelling and data sources**: Unlike the OBR's estimate, the Treasury's revised estimate uses a combination of public and non-public sources. Non-public data sources can provide more granular and up to date data. For example, using EU monthly Budget implementation data provided to the UK and member states enables more granular bottom-up modelling of the RAL
- **exchange rate**: The OBR uses a forward-looking exchange rate forecast, while the government does not have a target for the Sterling exchange rate and does not generally comment on currency movements. The new estimate uses the spot rate at the end of the 2019/20 financial year to align with the rate used in HMT departmental Resource Accounts. The exchange rate at the end of each financial year will be used in future editions of this publication, now that we have left the EU
- **pensions liability**: The OBR does not discount any aspect of the financial settlement. The OBR forecast future public expenditure flows from the financial settlement as they would in their fiscal forecast. In contrast, and in line with the 2017 reasonable central estimate, the Treasury's estimate continues to use a discounted valuation of the UK's EU pensions liability. The effect of discounting this liability is significant because the future cash flows are spread over many decades into the future. The Withdrawal Agreement provides the option for the UK to settle pension obligations early (if the UK so choses), based upon a discounted amount. This distinction in methodology is the largest source of difference between the two estimates

Table E.5: Comparison between Treasury estimate and the OBR forecast

	(£billion)
OBR estimate (2020 Spring Budget)	32.9
Exchange rate differences	1.5
Discounting for Pensions Liability	-3.0
Modelling and data source differences	-1.1
HM Treasury estimate (31st March 2020)*	30.2

*Column totals do not equal the sum of individual items due to rounding.

Factors affecting the size of the settlement

E.37 In conducting sensitivity analysis on the financial settlement, the Treasury has considered the key individual variables within the settlement and the impact that a change in individual variables would have on the overall settlement value.

E.38 The final value of the settlement, by its nature, cannot be known definitively at present, since the settlement requires the UK and EU to pay only those amounts that fall due, rather than on the basis of a forecast. However, not accounting for the reductions arising from the extension to the Article 50 period as described above, the Treasury considers it unlikely that the final value, which will not be known for some years, will fall outside the original estimated range.

E.39 The following are the main factors that could affect the value of the settlement. In future reports, if the Treasury considers the actual settlement is likely to fall outside the original estimated range, it will set this out with an explanation of the factors that could lead to this.

Limits on EU expenditure and revenue

E.40 The ceilings of the Multiannual Financial Framework set the limits for how much the EU can commit over 2014-20, and therefore ultimately spend.

E.41 The settlement freezes the ceilings of the Multiannual Financial Framework (MFF) 2014-20 for the UK, so that any changes agreed by Member States after the UK's withdrawal will not impact on the UK. This protects the UK not only during the Transition period, but for the lifetime of the settlement. The UK obligations to the EU's outstanding commitments at end-2020 cannot be larger than the limits agreed by the UK while it was a Member State.

E.42 The terms of the calculation of the UK's contribution, as set out in the Own Resources Decision, is also frozen post-withdrawal. This protects the UK from changes to rules for calculating revenue (including the UK's rebate) after withdrawal impacting on the UK's financial contributions.

E.43 The effect of a 1% increase in commitments made in the EU 2020 budget increases the HM Treasury net estimate by £100 million.

E.44 Following the generation of the Treasury's new estimate, there have been a number of Adopted and Draft Amending Budgets (DABs). These include measures which are part of the EU's budgetary response to Covid-19. In several areas the EU has confirmed that the UK, because of the protections secured in the WA, has no liability for additional contributions because they arise in respect of increases to the MFF ceilings that were agreed while the UK was a Member State. In addition, the UK is not liable for the wider support package announced by the Eurogroup on 9 April, or for proposals which were subsequently announced at the end of May which will be funded through the next MFF (2021-27) and which are consequently outside of the scope of the financial settlement.

E.45 Nevertheless, there are some measures that have impacted the UK's contributions over 2020 and post-2020, within the scope of the Withdrawal Agreement. Up to 3 June 2020 the Treasury estimate the financial effect of all newly adopted and proposed amending budgets on the gross settlement to be £307 million, with the net effect (after taking account of UK receipts) expected to be lower.[6]

Decommitments

E.46 A key principle of the financial settlement is that the UK will only pay towards EU obligations that actually materialise. Both Treasury and OBR forecasts of the settlement therefore include an estimate of the EU spending that will be decommitted (planned, but ultimately never spent). The NAO reported in April 2018 on HMT's decommitments assumption, 'HM Treasury has estimated that 9.3% of all outstanding commitments after 2020 will be de-committed. The estimate is based on the de-commitment rate from outstanding commitments after 2013, the end of the last budget period. But this rate has fluctuated in previous budget periods. During the previous budget period (2007–2013) the de-commitment rate was 11.9%. If HM Treasury assumed the rate is going to be this high after 2020, its estimate would have decreased by €0.6 billion (£0.5 billion)' [7]

E.47 The effect of a 1% absolute change in decommitments on the HM Treasury net estimate is estimated to be £220 million.

UK receipts

E.48 Under the financial settlement, the UK will continue to benefit from the implementation of the budget as if it had remained a Member State over the entirety of the current multiannual financial framework. This means that, subject to the normal audit and accountability requirements, all EU spending that is committed to the UK before the end of 2020 will be paid, even if those payments are due to be made in future years.

E.49 The forecast for UK receipts under the Financial Settlement is set out in Table E.1. This forecast assumes the UK's share of receipts from each heading will be the same percentage as that of previous years of this MFF. The UK's revenues from the EU may change in the context of withdrawal, although this risk is mitigated because allocations for most EU expenditure in the UK have already been agreed.

E.50 Around three quarters of UK receipts are fixed automatically each year, through EU regulations or operational programmes. While subject to audit and potential correction, these amounts are generally less sensitive to year-by-year variation.

E.51 The remaining quarter of receipts are received through competitive grant programmes such as Horizon 2020, and by nature vary from year-to-year.

6 This represents the UK's share of additional EU expenditure planned over 2020 and the return of the budgetary surplus from 2020. As of 3 June 2020, two amending budgets have been adopted (Amending Budgets 1 and 2), while four others (Draft Amending Budgets 3 to 6) remain to be adopted by the EU.

7 https://www.nao.org.uk/wp-content/uploads/2018/04/Exiting-the-EU-The-financial-settlement.pdf

Grants are assessed by neutral experts on the merits of the bid, and this remains the case for the UK under the terms of the Withdrawal Agreement.

E.52 The effect of 1% change in the non-allocated receipts forecast on the HM Treasury net estimate is estimated to be £60 million.

Financing Share

E.53 The UK's financing share of the EU budget is calculated annually and determines the amount of UK contributions to the EU Budget (taking into account the rebate) relative to all Member State contributions to the EU Budget.

E.54 Under the terms of the Withdrawal Agreement, the UK's financing share in 2020 will be determined broadly as if the UK had remained a Member State. Beyond 2020, the UK's financing share will be equal to the ratio of UK own resources transferred to the EU over 2014-20 to total own resources transferred over 2014-20, taking into account the revenue adjustment exercises in 2021 and 2022.

E.55 Since nearly all the UK's own resources contribution to the EU between 2014 and 2019 has already been determined, there is unlikely to be any significant change to our current estimate of the overall 2014-20 financing share.

E.56 The effect of a 1% change[8] in the UK's financing share, which is applied to all post-Transition Period obligations, on the HM Treasury estimate is £370 million.

Exchange rates

E.57 Under the terms of the financial settlement, the UK will continue to make its budget contribution in 2020 in sterling, before paying for any post-2020 obligations in euro. As a result, any movements in the euro-sterling exchange rate may affect the value of the settlement:

- over 2020, changes in the value of sterling will affect the UK's financing share, as the UK's share of euro-denominated VAT and GNI bases will change. The sterling value of UK payments and receipts will also change
- after 2020, changes in the value of sterling will still affect UK payments and receipts, but will no longer affect the UK's financing share, which is based on the average over 2014-20

E.58 The government does not have a target for the sterling exchange rate and does not generally comment on currency movements. In managing exchange rate risk with respect to public spending it applies the principles of Managing Public Money.

E.59 The effect of a 1% change in the sterling/euro exchange rate on the HM Treasury net estimate is estimated to be £300 million.

[8] This is equivalent to an increase in absolute terms of over 0.1% in terms of the UK's share of post Transition obligations.

Balance sheet items

E.60 The main EU liability included in the financial settlement is in relation to EU pensions and other employment related benefits accrued by the end of 2020. These are predominantly unfunded defined benefit schemes where the final amounts paid to beneficiaries are affected by a number of factors, including the final salaries of the employees, their years of service and the length of time they live in retirement. The amount the UK pays will be affected by these factors. However, because the UK is only required to pay these amounts as they fall due many of the uncertainties in estimating pension liabilities (like the choice of discount rate used to convert the future flows into a lump sum amount) will not affect what the UK pays, unless the UK chooses to settle the obligation early, as provided for in the Withdrawal Agreement.

E.61 The UK will continue to stand behind contingent liabilities arising from EU financial operations approved before withdrawal. Several of these instruments have associated guarantee funds. These funds are held on the EU's balance sheet. The extent of returns to the UK from these funds will depend on the financial performance of the funds and the underlying investments that are covered by the guarantees.[9]

E.62 The effect of 0.1% decrease in the discount rate applied to the UK share of EU pensions increases the estimate of the financial settlement by £175 million.

Assurance on the financial settlement

E.63 Article 134 of the Withdrawal Agreement provides a facility for UK auditors in respect of the implementation of the financial provisions. The information obtained by the UK and the audit work undertaken will provide assurance to the government on the implementation of the financial settlement and provide confidence to Parliament that what is paid and received is in accordance with the Agreement.

E.64 UK contributions to the EU Budget over 2020 will continue to be based on an established ongoing process and control environment, and the Withdrawal Agreement provides for continued UK attendance at relevant meetings in respect to the implementation of the Own Resources system (the system of rules for calculating Member State contributions to the EU Budget). The institutions of the Union will continue to be audited by the European Court of Auditors in their implementation of the EU Budget, as they did when the UK was a member state. Payments after 2020 will be implemented in accordance with the specific methodology set out in the Withdrawal Agreement.

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

E.65 The Treasury has been in discussions with the European Commission, the European Investment Bank and other key parties involved in the implementation of the EU Budget to agree the independent audit work that will be undertaken in respect of aspects of the financial settlement where the date of withdrawal provides an important cut off point. This includes Articles 150 (European Investment Bank), Article 143 (Contingent financial liabilities of the EU Budget), and Article 144 (Financial instruments of the EU Budget). A package of audit work (including what is referred to as 'Agreed Upon Procedures') will be undertaken by independent auditors in respect of the reports due under these articles at the end of July.

E.66 For those elements of the financial settlement where the UK's financial rights and obligations are determined by the position at the end of 2020 (for example the RAL and EU pensions) the Treasury and its advisors are engaged in detailed discussions with the European Commission and other relevant authorities of the Union about the arrangements to be put in place. The Treasury will continue to report on the development of those arrangements in this publication.

E.67 On 30 March the Withdrawal Agreement Joint Committee tasked the Specialised Committee on Financial Provisions (SCFP) to start work related to implementing the financial provisions in Part V of the Withdrawal Agreement. The first meeting of the SCFP was held in May and the parties reaffirmed their commitment to complying with their legal obligations under the Withdrawal Agreement. There was agreement to continue work on the information requirements set out in the financial provisions of the Withdrawal Agreement. The UK and EU committed to continue working collaboratively on a range of technical issues in recognition of the mutual benefit of smooth implementation of the financial provisions of the Withdrawal Agreement.

Domestic replacements for EU spending

E.68 As receipts from the EU diminish, there will also be a direct cost to the public finances from any new domestic spending to replace financial support (to the public and private sectors) currently provided by receipts from the EU budget, or for the administration of services and functions currently provided by the EU.

E.69 The government has made commitments already to replace certain EU funded programmes. The government has guaranteed the current annual budget for farmers in each year of this Parliament, and the Comprehensive Spending Review will create a multi-year UK-wide Shared Prosperity Fund which will support local economic recovery by driving economic growth and tackling deprivation.

E.70 Domestic spending on replacements for EU programmes, and which programmes to replace, beyond the existing commitments, will be decided at the upcoming Comprehensive Spending Review.

Off-budget funds outside the financial settlement

E.71 There are a number of areas where funds, mechanisms and organisations have been established outside the EU Treaties through separate international agreements but are managed by EU institutions or are in close alignment with EU policies. The Withdrawal Agreement makes provision for these to ensure there is certainty on how they will be treated. These mainly relate to development funding, where UK contributions are treated as Official Development Assistance (ODA) and count towards the UK's target for ODA spending of 0.7% of GNI. They are set out in the Department for International Development's (DFID) DEL spending estimate and accounts.[10]

E.72 The government considers payments and receipts in relation to these to be outside the financial settlement. It does not expect to meet the cost of contributions to the European Development Fund (EDF) and bilateral contributions to the Facility for Refugees in Turkey or EU Trust Funds through authority granted by the EU Withdrawal Agreement Act 2020.

[10] Under the Withdrawal Agreement, the UK will honour its commitment to the current and previous European Development Funds. The EDF derives from the European Union's Cotonou Partnership Agreement. The eleventh and latest EDF covers the commitment period from 1 January 2014 to 31 December 2020, though payments relating to these commitments will continue to flow after2020. It provides support to 79 African, Caribbean and Pacific (ACP) countries and Overseas Countries and Territories (OCTs) to eradicate poverty, support sustainable development and integrate ACP countries into the world economy. UK Overseas Territories will benefit from the current and previous EDFs until their closure. Each year, the European Commission is legally obliged to provide statements of forecasted commitments, payments and the annual amount of the calls for contributions to be made in that year and the following two budget years to both the EDF and its ACP Investment Facility, managed by the EIB. The Commission also provides forecasts for a further two years, which are non-binding estimations.

Table E.6: Outstanding off-budget development contributions, as at 31 March 2020

Outstanding off-budget contributions (as at 31 March 2020)	(€ millions)	(£ millions)[4]
European Development Fund[1]	2,672	2,271
Facility for Refugees in Turkey[2]	120	102
Emergency EU Trust Fund for Africa[3]	2	1.7

[1] HM Treasury calculations using EDF internal agreements and EU Commission annual communications forecasting commitments, payments and contributions from Member States.
[2] Combined total of the UK's outstanding contribution to the first tranche of the Facility (which is sourced from DFID's Development Tracker: https://devtracker.dfid.gov.uk/projects/GB-GOV-1-300287/documents) and the UK's share of the second tranche, based on internal DFID/EU Commission figures.
[3] EU Commission website on EU Emergency Trust Fund for Africa: https://ec.europa.eu/trustfundforafrica/content/trust-fund-financials_en
[4] Assuming exchange rate as published in the Official Journal of the European Union, for March 2020.

European Development Fund

E.73 The most recent statements from the European Commission details contributions in 2019 from Member States and forecasts of commitments, payments and contributions from Member States for 2019, 2020, 2021 and non-binding forecast for the years 2022-2023. The forecast UK contributions are summarised in Table E.7. Although the European Commission has not yet produced contribution forecasts for years after 2023, the government expects EDF contributions to continue to the mid-2020s as projects the UK is committed to are implemented.

E.74 The EIB African, Caribbean and Pacific (ACP) Investment Facility (IF) managed by the EIB focusses predominantly on private sector development in ACP countries (and a limited number of EU Overseas Territories) and is funded by EU Member States through the EDF. A total of €3.7 billion[11] of EDF contributions has been committed to a revolving fund in the IF, which invests in assets (e.g. loans, equity) that generate reflows to the facility for reinvestment on a self-sustaining basis. The Withdrawal Agreement confirms that the UK's share of the facility will be returned to the UK as the investments mature, unless agreed otherwise. As at end-2019, the UK had contributed €396 million[12] (£351 million) to the facility through our share of the EDF. By the end of 2020, the UK's share is estimated to be around €502 million[13] (£449 million), less any loss.

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

[12] Based on internal communication from EIB ACP IF Secretariat communications to shareholders.

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

E.75 Under the terms of the Withdrawal Agreement, the UK will also remain liable in respect of its guarantee to EIB own resources lending to ACP countries and the OCTs, as laid out in the EDF financing protocols under the Cotonou Agreement. Any calls on this guarantee would need to be met collectively by the UK and other EDF contributors in proportion to their respective shares in the agreements. Subsequently, the UK will be entitled to any share of amounts recovered in the event of a guarantee pay-out. As at 30 June 2019, the UK's total contingent liability on EIB loans under these guarantees was €192 million[14] over a period up to and including 2044, but this may increase further as more EIB loans are signed under the agreements. Under the terms of the Withdrawal Agreement, the UK will honour its contingent liabilities under this guarantee in full, which includes loans approved up to the end of 2020.

Table E.7: UK contributions and forecast contributions to EDF, as at 31 March 2020

Year	(€ millions)	(£ millions)
2020	411	349
2021	587	499
2022	440	374
2023	308	262

Source: European Commission Communication October 2019.
Assuming exchange rate as published in the Official Journal of the European Union, for 23 March 2020.
Contributions for years after 2023 have not yet been provided by the EC.

EU Trust Funds and the Facility for Refugees in Turkey

E.76 The UK will also honour commitments it made to the Facility for Refugees in Turkey and the EU Trust Funds. As with EDF, these contributions count as ODA, with bilateral contributions currently paid using powers provided in the International Development Act 2002. The government expects this practice to continue for these remaining commitments.

Non-developmental outstanding off-budget contributions

E.77 The Withdrawal Agreement also sets out the United Kingdom's obligations to the financing of the European Defence Agency (EDA), the European Union Institute for Security Studies (EUSS), and the European Union Satellite Centre (EUSC), as well as to the common costs of Common Security and Defence Policy operations, until 31st December 2020.

E.78 As with development contributions, the government considers payments and receipts in relation to these to be outside the financial settlement. It does not expect to meet the cost of contributions through authority granted by the

[14] EIB-Member State - Guarantee Agreements (Cotonou I II III) - UK - 2019 1st half year report.

EU Withdrawal Agreement Act 2020. In total these outstanding off-budget contributions as at 31 December 2019 are estimated to be €26.02 million (£23.06 million).

E.79 The Withdrawal Agreement also sets out the United Kingdom obligations to funding the pension liabilities for the personnel of the EDA, the EUSS, and the EUSC as well as the liabilities arising from the liquidation of the Western European Union (WEU), to the extent they have not been provisioned on 31 December 2020. The combined cost of EUSS and WEU is estimated to be €16.85 million (£14.94 million) after 31 December 2020. There will be an additional cost for EDA and EUSC.

Future reporting on the financial settlement

E.80 During the UK's membership of the EU, the government laid before Parliament this annual statement on European Union Finances that presented information on our contributions and receipts. The government has committed to report regularly on the financial settlement and intends to follow a similar practice in future.

Short-term public expenditure costs of EU exit

E.81 HM Treasury has provided additional funding to departments and the devolved administrations to prepare for and then deliver the UK's departure from the EU. In total over £8 billion of additional funding has been made available by the government for this purpose since 2016.

E.82 Core funding, for any Brexit scenario, has been made available as follows:

- Autumn Budget 2016 confirmed initial allocations of over £400 million funding across 16-17 to 19-20
- Autumn Budget 2017 committed an additional £3 billion split evenly between 2018-19 and 2019-20. Allocations of this funding for 2018-19 were confirmed in the Chief Secretary to the Treasury's Written Ministerial Statement of 13 March 2018
- Autumn Budget 2018 increased the funding available in 2019-20 by a further £500 million. Allocations of this were confirmed in the Chief Secretary to the Treasury's Written Ministerial Statement of 18 December 2018
- the Spending Round 2019 committed £2 billion of core funding to departments for post-Brexit delivery in 2020-21

E.83 In August 2019 HM Treasury also made available an additional £2.1billion of funding specifically for 'no deal' preparations in 2019-20. Prior to this some departments also made direct claims on the Reserve to support "no deal" civil contingency preparations in 19-20.

Table E.8: Departmental allocations: EU Exit funding allocations 2016-17 to 2020-2021 (£ million)

Department	16/17	17/18	18/19		19/20		20/21	**Total**
			Core	No Deal	Core	No Deal		
Cabinet Office	0	6.6	49.4	0	58.8	129.1	60.1	**304**
Competition and Markets Authority	0	1	23.6	0	20.4	0	20.4	**65.4**
Department for Business, Energy and Industrial Strategy	0	35.1	185.1	0	220.7	37.6	191	**669.5**
Department for Culture, Media and Sport	0	3	26.2	0	31.9	0	30.6	**91.7**
Department for Education	0	0	0	0	0	4.4	0	**4.4**
Department for Environment, Food and Rural Affairs	0	67.5	310	0	425.7	142.1	432	**1377.3**
Department for Exiting the European Union**	50.9	93.6	93.5	0	89.1	0	0	**327.1**
Department for International Trade**	8.7	53.6	97.3	0	151.6	11.2	130.2	**452.6**
Department for Transport	0	19.6	75.8	0	25	280.4	25	**425.8**
Department of Health and Social Care	0	0	21.1	0	50	331.5	50.9	**453.5**
Department for Work and Pensions	0	0	0	0	16.7	100	15.3	**132**
Food Standards Agency	0	0.9	14	0	16	3	14.6	**48.5**
Foreign and Commonwealth Office**	0.1	8.3	31.3	5.6	47	6.6	45.8	**144.7**
HM Revenue & Customs	0	41.7	260	0	425	158.4	381.9	**1267**
HM Treasury	0	14.1	24.8	0	35	16.1	35.6	**125.6**
Home Office	0	60	395	5.5	480.2	124.8	488.8	**1554.3**
Law Officers' Departments	0	0	0	0	2.7	0	2.7	**5.4**
Ministry of Defence	0	0	12.7	0	12	11.9	0	**36.6**
Ministry of Housing, Communities and Local Government	0	0	0	0	45.1	29.8	35	**109.9**
Ministry of Justice	0	0	17.3	0	30	4.7	30.5	**82.5**
Northern Ireland Office	0	0.3	0.4	0	1.1	2.7	1.1	**5.6**
Office for National Statistics	0	0	2	0	2.4	0	2.4	**6.8**
NIE inc. PSNI (direct non-Barnett)	0	0	0	0	16.5	21.1	0	**37.6**
Scotland Office	0	0.3	0.3	0	0.3	0	0.3	**1.2**

Department	16/17	17/18	18/19		19/20		20/21	Total
			Core	No Deal	Core	No Deal		
Single Intelligence Account	0	0	0	0	2.7	14	0	**16.7**
The National Archives	0	0	1.2	0	2.1	0	2.1	**5.4**
The Supreme Court	0	0	0	0	0.5	0	0.4	**0.9**
Wales Office	0	0.1	0.3	0	0.3	0	0.3	**1**
Scottish Government (direct non-Barnett)	0	0	0	0	0	20.2	N/A	**20.2**
Wales Government (direct non-Barnett)	0	0	0	0	0	13.3	N/A	**13.3**
Total	**59.7**	**405.8**	**1641.3**	**11.1**	**2208.8**	**1462.9**	**1997**	**7786.5**
Barnett consequentials***	16/17	17/18	18/19		19/20		20/21	**Total**
Northern Ireland Executive	-	2.3	15.2	-	20.4	18.8	N/A	**56.7**
Scottish Government	-	6.6	37.3	-	54.7	47.3	N/A	**145.9**
Welsh Government	-	3.7	21.4	-	31.1	28.4	N/A	**84.6**
Total	-	12.6	73.9	-	106.2	94.5	-	**287.2**

* This table excludes relevant expenditure funded by departmental reprioritisation of existing resources. Final budgets are confirmed in the relevant Main or Supplementary Estimate. Expenditure from within those budgets is confirmed in departmental Annual Reports and Accounts.

** This table updates allocations shown for DExEU, DIT and FCO in table E.6 on page 77 of European Union Finances 2018 to show the funding provided at Autumn Statement 2016 across the relevant years.

***This table shows Barnett funding applied on a policy basis of EU Exit funding for UKG depts 2017-18, 2018-19 and 2019-20. At the 2019 Spending Review, Barnett was applied in the usual way to departmental settlements for 2020-21.

****This table does not include any additional Reserve claims for 20/21, which will be confirmed at Supplementary Estimates 2020

Future relationship with the EU

E.84 The terms of any financial contribution to the EU is a matter for the ongoing negotiations.

E.85 In February 2020 the government published The Future Relationship with the EU: The UK's Approach to Negotiations, which further addressed future participation in EU programmes. The government reaffirmed its specific ongoing commitment to delivering the PEACE PLUS programme. The government will continue to deliver the PEACE PLUS programme as part of the UK's unwavering commitment to uphold the hard-won peace in Northern Ireland. The government is working with the European Commission and the Irish Government to shape the programme, maintaining the current funding proportions for the future programme.

E.86 The government is currently considering standard third country participation in certain Union programmes where it is in the UK's and the EU's interest to do so in relation to Horizon Europe, Euratom Research and Training, and Copernicus. The government is considering service access agreements for EU

Space Surveillance and Tracking, and the European Geostationary Navigation Overlay Service. The government is also considering options for participation in elements of Erasmus+ on a time-limited basis, provided the terms are in the UK's interests.

E.87 In line with the Political Declaration, any agreements relating to Union programmes should contain fair terms for UK participation. Neither the government nor the OBR has made forecasts of the net cost of additional financial contributions that the UK might be required to make to the EU over and above the estimate of spending on EU programmes described above. It would not be possible to model or forecast any of these potential payments without a detailed blueprint of the UK's future relationship with the EU – including specifying those agencies and programmes (if any) in which the UK would choose to continue to participate. Furthermore, any such payments would have to be negotiated with the EU, as part of the overall future agreement. The government is considering a wide range of options with regards to the outcome of negotiations to ensure that future programme participation delivers a real benefit to British people and industry while also providing convincing value for money. Where the UK no longer participates in EU programmes, the government will need to consider the merits of providing similar services or functions domestically. It is not possible to say now what those costs will be.[15]

[15] In November 2018, the previous government published a detailed economic analysis that covered a broad range of possible EU exit scenarios. The analysis has not been reproduced here because it does not include an assessment of the government's preferred outcome.

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This document can be downloaded from www.gov.uk

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