



HM Treasury

The European Union Finances Statement 2022:

Statement on the implementation of the Withdrawal and Trade and Cooperation Agreements



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

March 2023

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Contents

Chapter 1	Introduction	6
Chapter 2	Payments made during 2022	8
Chapter 3	Assurance Frameworks and Verification Process	17
Chapter 4	Outstanding liabilities under the Financial Settlement	26
Chapter 5	Financial Commitments under the Trade and Cooperation Agreement	34
Annex A	Technical annex of Forecast methodologies	36
Annex B	Residual receipts from the 2014 to 2020 Multi-annual Financial Framework (MFF)	41
Annex C	Cumulative Payments and Receipts	46
Annex D	Glossary	48

Chapter 1

Introduction

- 1.1 The United Kingdom (UK) left the European Union (EU) on 31 January 2020 following 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 (the WA).
- 1.2 Agreement on the Withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community (the Withdrawal Agreement (WA)) was reached on 31 January 2020.
- 1.3 The WA was followed by a transition period until 31 December 2020 in which the UK was no longer a member of the EU but remained a member of the Single Market and Customs Union. During that time, it continued to be subject to EU rules and obligations to contribute to the EU Budget as agreed as part of the WA.
- 1.4 The purpose of the annual EUFS has evolved alongside the changing nature of the UK's financial relationship with the EU. Now that the UK has left the EU and is no longer involved in the EU's Multiannual Financial Framework (MFF), detailed financial reporting on participation in the Budget is of diminishing relevance.
- 1.5 The focus in this EUFS is instead on the implementation of the WA, in which the UK and EU agreed to settle liabilities to each other arising from the period of the UK's membership and an update on the implementation of financial aspects of the Trade and Collaboration Agreement (TCA). This edition of the EUFS focuses on reporting the UK's second year fully outside of the EU, from 1 January to 31 December 2022. This edition gives a breakdown of the invoices received from the EU, setting out payments made in 2022. It then covers the UK's processes to verify that the invoices are correct. The document also provides a forecasted estimate of the UK's total outstanding liability.
- 1.6 Annex A compares HM Treasury's settlement and forecasting methodology with that of the Office of Budget Responsibility (OBR) and explains some of the context relevant to the preparation of different estimates for accounting purposes.
- 1.7 In the short term, certain elements that were covered in previous reports remain relevant, given the UK's continued exposure to the tail of certain programmes funded under the 2014 to 2020

MFF. Annex B shows a summary of the anti-fraud reports (previously found in the EUFS's main body).

- 1.8 Annex C includes table C.1, which outlines the cumulative payments and receipts made before the 31st of December, as well as outlining the constituent parts.
- 1.9 Annex D contains a Glossary all key terms and abbreviations used in this document.
- 1.10 The cut-off date for reporting for this edition of the EUFS is 31 December 2022, as these statements will continue to be published on a yearly basis and reflect the financial year of the European Union.

Chapter 2

Payments made during 2022

Overview of the Withdrawal Agreement (WA)

- 2.1 The United Kingdom (UK) left the European Union (EU) on 31 January 2020 following 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 (the WA).
- 2.2 The WA was followed by a transition period in which the UK was no longer a member of the EU but remained a member of the single market and customs union. During that time, it continued to be subject to EU rules and obligations to contribute to the EU Budget. The transition period ended on 31 December 2020, which is the EU's financial year-end date and the reporting date used for reporting on the UK's outstanding net liabilities.
- 2.3 The WA sets out the Financial Settlement that was reached on the UK's rights and obligations as a departing Member State. 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 WA establishes the UK's share of EU obligations in the settlement. For 2020, the share was based on the existing methodology for determining the UK's annual EU budget contributions. The UK's share from 2021 onwards is the average of its share of the EU budget (taking into account the rebate) over 2014 to 2020.
 - The UK will not be required to incur expenditure earlier than would have been the case had it remained a Member State, although the WA allows for exceptions to be made in a

number of specific cases where it might be in both sides¹ interests to settle costs early. This is particularly relevant for pensions, where costs will decline steadily over a long period of time.

The European Union Withdrawal Agreement Act 2020

- 2.4 The European Union (Withdrawal Agreement) Act 2020 (WAA) implemented the WA into domestic law. It received Royal Assent on 23 January 2020.
- 2.5 Section 20 of the WAA on financial provisions allows the government to meet the financial obligations set out in the WA. The legislative mechanism in the Act was a standing service provision until 31 March 2021, which enabled payments to be made from the Consolidated Fund without further Parliamentary authorisation. The end of the standing service provision during 2021 means that the majority of net liabilities arising under the WA going forward will be met from HM Treasury's Supply Estimates and recorded in the department's annual report and accounts.
- 2.6 The exception is for payments related to Traditional Own Resources (TOR), which must be paid separately from the Consolidated Fund using the standing service provision which has been maintained for that purpose alone.² This is because TOR payments consist of customs duties historically collected by the UK acting as an agent for the EU.
- 2.7 The WAA does not grant payment authority relating to any future agreements between the UK and EU and forecasted payments under the Trade and Cooperation Agreement (TCA), for example, are considered separately in Chapter 5.

Assets and Liabilities

- 2.8 The UK is currently paying its share of the EU's liabilities as recognised at 31 December 2020 and benefits from a share of EU assets in several 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.

¹ Agreement on the Withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community can be accessed at: <https://www.gov.uk/government/publications/new-withdrawal-agreement-and-political-declaration>

² European Union (Withdrawal Agreement) Act 2020 Section 20(2). The document can be accessed at: <https://www.legislation.gov.uk/ukpga/2020/1/section/20/enacted>

- 2.9 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.
- 2.10 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 are not disclosed in the accounts under international accounting standards, such as IAS 37 on Provisions, Contingent Liabilities and Contingent Assets, where the possibility of an outflow of resources is remote.
- 2.11 In most cases the contingent liabilities that remain under the Financial Settlement are limited to those that the EU has taken on up to the date of withdrawal. The exception is costs associated with legal cases related to the budget as well as related policies and programmes, which is limited to cases where the facts relate to the period of the UK's participation in the EU budget (before the end of 2020).
- 2.12 Many of the contingent liabilities relate to guarantees on financial operations managed by the EU and its implementing partners. Under the Financial Settlement the UK has a right to a share of the associated guarantee funds (GF) the EU accumulated to meet potential calls on these underlying operations. To the extent the UK's share of these GF is not drawn upon to meet calls on the financial operations the UK will receive a positive return from its share of these instruments.

The Payment Process

- 2.13 UK contributions to the EU Budget over 2020 were based on established processes and a consistent control environment with the period of our membership. The institutions of the Union continue to be audited by the European Court of Auditors (ECA) in their implementation of the EU Budget, as they did when the UK was a Member State.
- 2.14 Since payment of the final amount related to the transition period in February 2021, subsequent payments have been made in accordance with the specific methodology set out in the WA.
- 2.15 Under the WA, the EU issues two invoices each year - one in April and the other in September. The April invoice includes a schedule for equal payments in the 4 months from the end of June till September. The September invoice is followed by 8 further monthly instalments from the end of October till May.

Payments in 2022

- 2.16 From January to May 2022, the UK fulfilled the 5 remaining monthly payments from the September 2021 invoice on time and in full. These payments totalled €5,105,899,216.87 and were disclosed in the EUFS 2021.³
- 2.17 The April 2022 invoice provided a single net liability for the UK of €3,419,693,252.35. All instalments of the invoice were paid in full and on schedule. The September 2022 invoice provided a single net liability for the UK of €6,396,952,144.11. Of this amount, 3 payments totalling €2,398,857,054.06 were due during 2022 and were paid in full and on schedule.
- 2.18 The 5 remaining payments under the September 2022 invoice due for payment from January till May 2023 are not within the scope of this Chapter but are included in HM Treasury's revised forecast of the value of the financial settlement in Chapter 4.
- 2.19 Further details on the verification processes undertaken by HM Treasury in paying these invoices and governance of the ongoing relationship with the EU are provided in Chapter 3.
- 2.20 The following table provides the schedule of monthly payments of net liabilities made by the UK. Liabilities are settled in Euros at the exchange rate prevailing on the date of each monthly payment.

Table 2.A: Monthly payments of net liability under Article 148

Date	Amount (€)	Amount (£) ⁴
30th June 2022	854,923,313	737,906,380
31st July 2022	854,923,313	719,543,300
31st August 2022	854,923,313	723,252,050
30th September 2022	854,923,313	763,994,097
31st October 2022	799,619,018	694,254,660
30th November 2022	799,619,018	691,951,463
31st December 2022	799,619,018	699,121,072
Total Payment under the Financial Settlement of the WA in 2022	5,818,550,306	5,030,023,023

³ European Union Finances 2021 document can be accessed here: <https://www.gov.uk/government/statistics/european-union-finances-2021-statement-on-the-implementation-of-the-withdrawal-and-trade-and-cooperation-agreements>

⁴ These values are the costs in sterling to purchase the euros required to settle monthly instalments.

Determining the UK's financing share (A139)

- 2.21 The UK's financing share under the WA is determined by the ratio of own resources made available by the UK to all own resources made available by all Member States from 2014 to 2020. "Own resources" is a term used to describe Member State contributions to the EU budget. Over 2014 to 2020, these were primarily Customs Duties, contributions based on VAT and GNI-based contributions.
- 2.22 The UK financing share during 2021 was set on a provisional basis by the European Commission (EC) at 12.358072326018200% and this share was used to calculate the UK's net liability. The financing share was finalised in 2022, based on definitive data, at 12.431681219587700% and corrections to UK net liabilities were included in the April 2022 invoice.

Reste à Liquider (RAL) (A140): Outstanding Payments

- 2.23 Article 140 (A140) of the WA states that the UK will pay its share of outstanding budget and agency commitments as at 31 December 2020, as these commitments fall due. The payments are based on estimates for the year, less amounts over or underpaid in the previous year when outturn is compared to the original estimate payment. This is the most significant component of the Financial Settlement under the WA.
- 2.24 In March 2022, the EU delivered the A140 March report detailing the overall liability and the amounts payable for expected budgetary contributions for 2022. The amount was payable in 12 equal monthly instalments across the two invoices. The first payment was made on 30 June 2022. The total amount payable relating to 2022 and 'true-up mechanism' for 2021 was €10,657mn, of which €6,557mn was payable in the 7 payments due in 2022.
- 2.25 In addition, there were various adjustments relating to Traditional Own Resources and Net Financial Corrections. The impact of these adjustments resulted in a €130mn reduction in payments to the EU over the April and September 2022 invoices. Of which 91mn was payable in the 7 payments due in 2022.

Fines Revenue (A141)

- 2.26 Under Article 141 of the WA, the UK is entitled to its share of fines decided before 31 December 2020 and those decided upon by the Union after 31 December 2020 in a procedure referred to in Article 92(1) when these become definitive.
- 2.27 The WA does not mention any required reporting for A141. However, HM Treasury have agreed with the European Commission (EC) that supporting bi-annual reporting on fines

cases will be provided. Fines revenue is not included in the April invoice and only reported in the September invoice.

- 2.28 In the April invoice, an additional €0.3mn was returned to the UK through the change in the financing share. In the September invoice, €150mn was reported as due to the UK, of which €56mn was offset against UK net payments in the three instalments due in 2022.

Pensions liabilities (A142)

- 2.29 Under Article 142, the UK is liable for its share of the Union's liability for pension rights and rights to other employment-related benefits accrued on or before 31 December 2020. The UK received the first round of reporting for the liability in March 2022 for the principal schemes described below.
- 2.30 The majority of the liability is composed of the Pension Scheme for European Officials (PSEO) and Joint Sickness Insurance Scheme (JSIS). The first payment for these schemes, €236mn, was charged in the April 2022 invoice, and therefore, fully paid in 2022.
- 2.31 There was another amount of €29mn included in the September 2022 invoice for Members and EU high-level public office holders, of which, €11mn was payable in the three payments of the September 2022 invoice due in 2022. Additionally, €0.1mn was paid in the April Invoice to cover the definitive financing share.

Contingent financial liabilities arising from loans for financial assistance and budgetary guarantees (A143)

- 2.32 Under Article 143, the UK retains its share of contingent liabilities arising from financial operations undertaken by the European Investment Bank (EIB) and European Investment Fund (EIF) under Loans for Financial Assistance and Budgetary Guarantees. These are in relation to European Financial Stabilisation Mechanism, Balance of Payments, Macro-Financial Assistance, Euratom, European Fund for Strategic Investment (EFSI), European Fund for Sustainable Development (EFSD) and External Lending Mandate (ELM). The UK is only liable for operations agreed upon whilst a Member State or 'Pre- Brexit' operations. These operations are partly backed by Guarantee Funds (GF) that will cover any losses on the operations. The UK is due its share of any part of the GF that is unused.
- 2.33 In March 2021, the EU reported on the full range of values required under the WA including outstanding financial operations, contingent liabilities, and values of GF.
- 2.34 The UK received €163mn under Article 143 in 2022 in 4 monthly instalments from 30 June 2022, this relates to underlying

operations and additional return from the change in financing share.

Financial Instruments financed by the programmes of the 2014 to 2020 MFF (A144)

- 2.35 Financial instruments (FIs) under the scope of Article 144 make investments in and provide loans under 'financial operations' for their specific mandate. As per the March 2022 A144 report, there were 86 financial instruments in total under the scope of the WA, managed by 12 different Entrusted Entities such as the EIB, EIF and European Bank for Reconstruction and Development.
- 2.36 The financial operations are fully provisioned or guaranteed by the EU budget. Under Article 144, the UK is due its share of flows returning to the EU Budget from the financial operations approved before 31 January 2020. Additionally, the UK is due a share of the funds from the 2020 EU budget invested in financial operations approved after 31 January 2020.
- 2.37 In March 2022, the EU reported on the full range of values required under the WA including Contingent Liabilities and detailed breakdowns of payments to and from Financial Instruments and operations. The UK received €73mn under Article 144 in 2022 in 4 monthly instalments from 30 June 2022, this relates to underlying operations and additional return from the change in financing share. Under the WA, payments to the UK only occur via the April invoice.

Assets of the European Coal and Steel Community (ECSC), in liquidation (A145)

- 2.38 Under Article 145, the UK is entitled to its share of the net assets of ECSC in Liquidation as at 31 December 2020. The assets of the ECSC applicable under Article 145 as at 31 December 2020 were €1,483mn, of which the UK's share is €184mn. This is to be paid back in 5 instalments from 2021 and included in the annual April invoice exclusively. The April 2022 invoice included a payment to the UK of c.€37m, which relates to the UK's share of the asset as well as an adjustment for the 2021 return given the definitive financing share.

Assets of the European Investment Fund (A146)

- 2.39 Under Article 146, the UK is entitled to its share of the EU's investment in the paid-in share capital of the EIF as at 31 December 2020. The EU's investment in the European Investment Fund (EIF) paid-in share capital as at 31 December 2020 was €267mn, of which the UK's share is €33mn. This is to be paid back in 5 instalments from 2021 and included in the annual April invoice exclusively. In the April 2022 invoice the UK received €7mn, which relates to the UK's share of the asset as well as an

adjustment for the 2021 return given the definitive financing share.

Contingent liabilities from legal cases (A147)

- 2.40 Under Article 147 the UK is liable for its share of the payments required to discharge the contingent liabilities of the EU that become due in relation to legal cases concerning financial interests of the EU.
- 2.41 The UK had already paid its share of legal case contingent liabilities up to 31 December 2020 through the UK's participation in the 2020 EU Annual Budget and those made as a Member State. The March 2022 reporting on Article 147 covered legal cases which crystallised in 2021, excluding those from January and February 2021, which were already reported to the UK in the March 2021 report. The April 2022 invoice showed a liability for €6mn under Article 147, which was payable in 4 monthly instalments from 30 June 2022.

UK receipt of paid-in EIB capital

- 2.42 In addition to the annual payment cycle described above, the UK's European Investment Bank (EIB) paid-in capital of €3.5bn will be returned over 12 years on 15 October, starting from 2020. This will be made in 11 equal annual instalments of €300mn and the final reimbursement will cover the balance of €196mn. The UK received the third payment during 2022⁵.
- 2.43 The UK will maintain a contingent liability in respect of the stock of outstanding EIB operations at the point of the UK's withdrawal, which will decrease as the underlying loans and investments are completed. Under the terms of the WA, the return of the UK's EIB paid-in capital remained an asset of the Consolidated Fund unless the asset was transferred to HM Treasury. The second instalment was transferred to HM Treasury and disclosed in the departmental resource accounts for 2021-2022.⁶

EU Trust Funds and the Facility for Refugees in Turkey

- 2.44 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 Official Development Assistance (ODA), with bilateral contributions currently paid using powers provided

⁵ The date of the initial instalment of the return of EIB paid-in capital set out in Article 150(4) was amended by Article (1)(6)(a)(i) of Decision 1/2020 of the Withdrawal Agreement Joint Committee from 15 December 2019 to 15 October 2020 in order to account for the revised date upon which the UK left the EU.

⁶ HM Treasury Annual Report and Accounts 2021-22 -ARA [HMT_Annual_Report_and_Accounts_2021-22.pdf](https://www.hmt.gov.uk/publications/HMT_Annual_Report_and_Accounts_2021-22.pdf) (publishing.service.gov.uk)

in the International Development Act 2002. As such, these are reported by the Foreign Commonwealth and Development Office. Over 2022, the UK provided £22mn for the Facility for Refugees in Turkey.

Non-development outstanding off-budget contributions

2.45 The WA also set out the UK's obligations to the financing of the European Defence Agency (EDA), the European Union Institute for Security Studies (EUISS), 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.

Post-2022 invoices and payments

2.46 The cut-off date for reporting of payments for this edition of the European Union Finances Statement (EUFS) is 31 December 2022 in line with the financial year end of the European Union, as these statements will be published on a yearly basis. There are 5 outstanding monthly payments of c.€800 million each due in relation to the September 2022 invoice to be paid in from January to May 2023, ahead of the April 2023 invoice.⁷ These payments will be reported in more detail in the next edition of the EUFS document covering payments in 2023.

⁷ All liabilities under the Withdrawal Agreement are settled in Euros.

Chapter 3

Assurance Frameworks and Verification Process

Verification Process on the financial settlement

- 3.1 Article 134 of the Withdrawal Agreement (WA) gives the UK the right to request and inspect information and underlying controls in respect of the implementation of the financial provisions, supported by appropriate administrative arrangements. The information obtained by the UK and the verification work undertaken provide assurance to the HM Government on the implementation of the Financial Settlement and confidence to Parliament that what is paid and received is in accordance with the Agreement.
- 3.2 We have worked with the European Commission (EC) and its implementing partners to ensure their systems and controls over financial reporting are suitable for the specific requirements of the WA. We recognise that it is in the interest of both parties that the UK pays the right amount of liabilities, and receives its share of receipts, due under the WA. Technical interpretations have been produced consistent with the principles underpinning the WA. These are based on methodologies which are fair to both parties, and which result in net liabilities being met at the correct time (including receipts due to the UK).
- 3.3 Our approach to obtaining assurance over the financial settlement is summarised in Box 3.A.

Box 3.A: Overview of the UK's Assurance Framework over the financial settlement

The assurance framework in relation to the financial settlement has been based on a risk-based approach to financial reporting, covering:

- Mapping key reporting risks to the UK; understanding where reliance can be placed on assurance processes that are unchanged from our period of European Union (EU) membership and agreeing additional arrangements to obtain comfort over risks that were not mitigated by those controls.
- A tailored approach to obtain comfort over the payments and reimbursements as they arise on an article-by-article basis and the completeness, accuracy and valuation of assets and liabilities.
- Reliance, where possible, on the EC's (and other entrusted entities') independently audited financial statements and other independent data testing in order to minimise the repetition of audit work (recognising that the absence of an established reporting framework to form the basis of an assurance opinion made the appointment of a single UK auditor of the financial settlement impossible).
- The ability to trace net liabilities from the EC's audited accounts (and those of its implementing partners) to both the more detailed WA reporting obligations and to the April invoice.
- Where the existing reporting and assurance does not address specific reporting risks to the UK resulting from the WA, HM Treasury has requested specific additional procedures are performed, including through the use of Agreed Upon Procedure (AUP) reports on the data underlying the EC's formal reporting to the UK. These AUP reports provide independent factual findings of tests agreed with the UK to support our assurance objectives.

Reliance on the European Commission's annual accounts

3.4 The EC's annual accounts for the years ending 31 December 2020 onwards contain additional disclosures related to UK Withdrawal from the EU. Obligations in respect of the following WA provisions are covered:

- Article 136 – Provisions applicable in relation to own resources

- Article 139 – The UK’s Financing Share
- Article 140 – Outstanding commitments (Reste à Liquider [RAL])
- Article 141 – Fines
- Article 142 – Union liabilities at end 2020 (EC pension schemes)
- Article 143 – Contingent financial liabilities: loans for financial assistance, European Fund for Strategic Investment [EFSI], European Fund for Sustainable Development [EFSD] & External Lending Mandate [ELM];
- Article 144 – Financial instruments (FIs)
- Article 145 – Assets of the European Coal and Steel Community (ECSC), in liquidation
- Article 146 – Investment in the European Investment Fund (EIF)
- Article 147 – Contingent liabilities related to legal cases

3.5 The EC prepares the EC annual accounts following EU Accounting Rules, which are based on the International Public Sector Accounting Standards. These are based on public sector interpretations of the International Financial Reporting Standards (IFRS). The EU annual accounts are audited by the European Court of Auditors (ECA). The ECA conducts its audit in compliance with the International Standards on Auditing and is independent of the EC, in accordance with the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants.

3.6 The ECA is free to decide what it will audit, how it will do this, and how and when to present its findings. As a result, the ECA reports two annual opinions:

- ‘True and fair’ - whether the EC accounts are properly prepared in accordance with international public sector accounting standards and present a materially correct view of financial results for the year and assets and liabilities at the end of the year
- ‘Legal and regular’ - whether the EC accounts are made up of transactions that comply with applicable EU rules, regulations, and contractual obligations

EC financial reporting delivered in March 2022

3.7 The WA specifies that the EC must provide detailed financial reporting in March of each year on net liabilities recorded at the end of the preceding year. We have worked with the EC to

ensure that this reporting supports the UK's assurance requirements. We received the March 2022 reports in line with the requirements of the WA. They reflect the UK's position at the end of the transition period of 31 December 2020 and form a basis for the net liabilities that the UK began to settle in June 2021. The reports delivered in 2022 are summarised in Box 3.B.

Box 3.B: Overview of the March reporting deliverables

- The EC provided the UK with a reporting package and supporting material comprising the following:
 - Definitive financing share of the UK (2014-2020) which is a calculation input into each component of the net liability under the WA.
 - Outstanding commitments at 31 December 2021 for which the UK is liable which relate to the RAL liabilities resulting from our membership of the EU.
 - Amounts pertaining to UK liability for pensions for EU officials, and other employment benefits, accrued on or before 31st of December 2020.
 - Contingent financial liabilities arising from loans for financial assistance and budgetary guarantees (EFSD, EFSD and the ELM), and the UK share of the provisioning in the related guarantee funds (GF).
 - Financial operations under FIs financed by the programmes of the 2014 to 2020 Multiannual Financial Framework (MFF) (or earlier financial perspective).
 - Amounts to be paid in relation to contingent liabilities arising from legal cases to which the EU was a party until the end of the transition period

Determining UK's financing share (A139)

- 3.8** The UK's financing share is determined by the ratio of own resources made available by the UK to all own resources made available by all Member States from 2014 to 2020. Own resources is a term used to describe Member State contributions to the EU budget. Over 2014 to 2020, these were Customs Duties, contributions based on VAT and GNI-based contributions.
- 3.9** The UK's financing share is applied to each component of the net liability under the WA for Articles 136, and 140 to 147. The UK's financing share was provisional for 2021 and became fixed in February 2022 when data inputs for the last year of the 2014 to 2020 MFF were finalised.

- 3.10 The UK performed validation checks on the data inputs and calculation of UK's finalised financing share for 2022. This included reconciling data with publicly available information and historic data in the UK's possession.
- 3.11 The ECA's audit opinion covers the UK's financing share providing further assurance over the figure.

The Reste à Liquider (A140)

- 3.12 The Reste à Liquider (RAL) is the outstanding EU budgetary commitments and is the largest component of the WA liability. The UK is liable for budgetary commitments made up to the 31 December 2020. There are two focuses of the assurance work performed by the UK; firstly, the overall liability and secondly, the payment required in 2022 for 2021.
- 3.13 In 2022, the EU issued the A140 March Reports that detailed the overall RAL, UK-specific adjustments, and the required payments in for 2021.
- 3.14 The payment in 2022 and the overall liability are included in the EU accounts in a specific Brexit disclosure note. The ECA audit opinion covers these figures, and a clean, unmodified audit opinion was given over the 2022 accounts. The UK has reconciled the values in the March report to the EU accounts with no variances noted.
- 3.15 The UK has challenged the EC and performed various additional validation checks to provide further assurance over the reporting and amounts payable. This includes reconciling amounts payable to the publicly available EU voted budget. Adjustments to the overall RAL have also been tested and have been reconciled financial information to published documents and historic data in the UK's possession from when it was a Member State.

Fines Revenue (A141)

- 3.16 HM Treasury have agreed with the EC for biannual reporting of obligations under this article to be provided. This reporting communicated a list of all fines being tracked by the EC because they were potentially within the scope of Article 141. This was inclusive of:
- Those which have become definitive by 31 December 2020 and that are still outstanding (i.e., fine outstanding amounts and amounts not yet collected as revenue and entered into the Budget).
 - Those in litigation, either at the General Court or the European Court of Justice.
 - Those for which the respondent may still contest the decision or appeal a court ruling.

- HM Treasury have verified all amounts for all fines that impact on the 2022 reporting to publicly available resources.

3.17 Additionally, the EU accounts contain a specific Brexit disclosure stating the amount due to the UK under Article 141. HM Treasury verified these amounts to the Brexit disclosures in the EU accounts with no variances noted.

Pensions liabilities (A142)

3.18 For the PSEO and JSIS Pension schemes, the most significant schemes under Article 142, the UK is liable for the payments made to pension beneficiaries in the previous year. The UK's share of the amount payable was disclosed in the EU accounts in the Brexit disclosure note and the UK performed verification checks to those figures with no variances noted. The ECA's audit opinion covers the EU financial statement with an unmodified opinion issued. The UK received detailed reporting in the March reports that allowed tracing through of the principal liabilities.

3.19 In respect of the pension scheme for high-ranking EU officials the UK is liable for its share of the liability at 31 December 2020 to be settled in 10 equal yearly instalments. The UK has verified that the yearly payment in 2022 is equal to 1/10th of this liability. Additionally, the amount is disclosed in the EU accounts in the Brexit disclosure note and the UK performed verification checks to those figures with no variances noted.

Contingent financial liabilities arising from loans for financial assistance and budgetary guarantees (A143)

3.20 The UK assurance arrangements for Article 143 in 2022 involved a number of procedures. To confirm the value of UK's share of assets, in 2021 HMT verified the value of Guarantee Funds underlying the financial operations under Article 143 to the respective Guarantee Funds (European Fund for Strategic Investment (EFSI) Guarantee Fund and Guarantee Fund for External Action). The Financial Statements included specific 'Brexit' disclosures which were covered by unmodified audit opinions.

3.21 The UK worked with the EC, European Investment Bank (EIB) and European Investment Fund (EIF) to develop bespoke Brexit AUPs. These were a series of tests and procedures performed by the auditor of the EIB and EIF that provide assurance over Contingent Liability and Outstanding Operations balances and various reflows including guarantee calls.

3.22 Additionally, the EU accounts contain a specific Brexit disclosure stating the amount due to the UK under Article 143. The ECA's audit opinion covers the EU financial statement with an unmodified opinion issued. HM Treasury have reconciled the

amounts in the disclosure to the amount payable in the April Invoice.

Financial instruments financed by the programmes of the 2014-2020 (A144)

- 3.23 The UK sought comprehensive assurance over each of the 87 financial instruments (FIs) funded by the 2014-2020 European budget programmes and associated flows of money. The assurance arrangements varied depending on existing reporting arrangements. A specific Brexit disclosure was added to the financial statements of the majority of FIs with an unmodified audit opinion issued for each. For the 17 FIs managed by KfW, the UK worked with the EC to develop bespoke Brexit Agreed Upon Procedures (AUPs). These were a series of procedures performed by the auditor of the KfW that provide assurance over values relevant for Article 144. For the remaining FIs, various validation checks were performed, reconciling figures to audited financial statements and other publicly available financial information.
- 3.24 Additionally, the EU accounts contain a specific Brexit disclosure stating the amount due to the UK under Article 144. The ECA's audit opinion covers the EU financial statement with an unmodified opinion issued. HM Treasury have reconciled the amounts in the disclosure to the amount payable in the April invoice.

Assets of the European Investment Fund (A146)

- 3.25 The UK is entitled to its share of the EU's investment in the paid-in share capital of the EIF as at 31 December 2020, to be paid back in 5 instalments. The EU's investment in the EIF paid-in share capital at 31 December 2020 was €267.4 million and was agreed to the EIF Financial Statement. The yearly amount receivable for the UK has also been reported and agreed to the EU audited accounts.

Contingent Liabilities from legal cases (A147)

- 3.26 HM Treasury have reconciled the significant legal cases that comprised the €6mn liability for the UK to publicly available court rulings.
- 3.27 Additionally, the EU accounts contain a specific Brexit disclosure stating the amount due to the UK under Article 147. The ECA's audit opinion covers the EU financial statement with an unmodified opinion issued. HM Treasury have reconciled the amounts in the disclosure to the amount payable in the April Invoice.
- 3.28 Technical engagement and formal governance on 30 March 2020 the WA Joint Committee (WAJC) tasked the Specialised

Committee on Financial Provisions (SCFP) to start work related to implementing the financial provisions in Part V of the WA. The SCFP is co- chaired by an HM Treasury official and a representative of the EC. This formal governance has supported our assurance objectives and provides a prescribed route for escalation of any areas of disagreement to the WAJC.

- 3.29 Two meetings of the SCFP were held in 2022. The first was held in April 2022, which formally noted the delivery of the annual reporting package required by the WA, and of the associated invoice under Article 148 specifying the relevant amounts to be paid in 2022.
- 3.30 The second meeting was held in October 2022. This meeting focused on discussions around the September 2022 invoice and the assurance and reporting arrangements around it.
- 3.31 Outside of this formal governance process, we have maintained a wide range of technical engagement on financial reporting with the EC's Directorate-General for Budget (DG BUDG) and other officials from the EC and its partners throughout 2022. An overview of this engagement is provided in Box 3.C.

Box 3.C: Technical engagement between the UK and EU

This programme of technical engagement on the financial provisions began in 2020 and is ongoing. During that time, we have:

- Held more than 100 meetings with Directorate-General for Budget workstream leads, and relevant experts from other parts of the EC and its partner institutions, on individual articles in order to agree a shared understanding of implementation requirements.
- Addressed technical queries arising from delivery of these reports.
- Held several high-level coordination meetings to ensure that shared objectives and milestones for reporting were met.
- Met with representatives of the EIB and its auditors.
- Met with the ECA to discuss the scope and nature of its audit work for the year ended 31 December 2020

- 3.32 A number of calculation inputs and figures contained within the WA are based on estimations or provisional figures, which are subject to adjustment in future years in accordance with the EU's financial regulations or specific provisions within the WA itself. This includes, for example, estimated payments in a given year

on RAL commitments and the UK financing share percentage, which was finalised in February 2022.

- 3.33 Where this is the case, there will be adjustments in future years once the data becomes definitive. We have agreed with the EC a methodology which allows for adjustments:
- For errors identified by the UK or the EC in respect of invoiced amounts then corrected as part of the next monthly payment.
 - To correct for adjustments identified during the independent audits of the EU annual accounts and its entrusted entities and would be corrected in subsequent invoice.
 - Resulting from differences between forecasts and outturn. Formal governance under the WA supports our technical engagement and future corrections in the event of disagreement and would be corrected in subsequent year reporting.

Limits on EU expenditure and revenue

- 3.34 The ceilings of the MFF set the limits for how much the EU was able to commit over the 2014 to 2020 period, and therefore ultimately spend.
- 3.35 The settlement freezes the ceilings of the
- 3.36 e 2014 to 2020 MFF for the UK, and the permissible purposes for which UK monies are paid, so that any changes agreed by Member States after the UK's withdrawal will not impact on the UK. This protected the UK during the Transition period and continues to 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.
- 3.37 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.

Chapter 4

Outstanding liabilities under the Financial Settlement

- 4.1 This chapter covers the United Kingdom (UK)'s outstanding liabilities and provides HM Treasury's estimated value of them. Recognising that the Financial Settlement is a methodology to establish a fair balance of responsibilities and obligations and not a fixed amount, the chapter provides an overview of the main variables which could impact the figure in future. It covers the nature of the liabilities and points to where they are reported on further in government accounts.

HM Treasury's updated estimate

- 4.2 HM Treasury's current estimate of the total net value of the Financial Settlement is £30.9 billion, including settled payments and flows to the UK. The estimated remaining net liabilities as at 31 December 2022 were c.€14.9 billion (c.£13.2 billion). HM Treasury will provide an update of this liability each year, as payments are made.

Table 4.A: Financial Settlement Payment Breakdown⁸

Component (Time Period)	Gross⁹ (€bn)	Receipts¹⁰ (€bn)	Net (€bn)	Net (£bn)
Total Financial Settlement ¹¹ (Feb 2020 - 2065)	56.3	-20.9	35.3	30.9
Payments (to date) (Feb 2020 - Dec 2022)	35.2	-14.8	20.5	17.7
Forecast Payments (outstanding) (2023 - 2065)	21.0	-6.2	14.9	13.2
of which: relate to September 22 Invoice (Jan - May 2023)	4.0	-0.9	3.1	2.8
Forecast Payment (outstanding) ¹² (June 2023 - 2065)	17.0	-5.3	11.7	10.4

Contingent liabilities

- 4.3** Under the terms of the Withdrawal Agreement (WA), the UK will maintain contingent liabilities to the European Union (EU). Contingent liabilities refer to the present value of a payment obligation with uncertain value or likelihood of crystallising; or possible obligations based on uncertain future events. The EU guarantees financial operations that its 'Implementing Partners', predominantly the European Investment Bank (EIB) and European Investment Fund (EIF), invest in. This creates a potential commitment to reimburse any future losses on the financial operations that the implementing partners incur. Under Articles 143 and 150, the UK remains liable for its share of the losses on financial operations approved before 31 January 2020.
- 4.4** For the financial operations covered under Article 143, a proportion of the contingent liability is provisioned from the EU Budget under budgetary guarantees that the UK contributed to whilst part of the EU. For any losses greater than the amount in budgetary guarantees, the UK would have an obligation to reimburse the EU similar to the other Member States. In the event that the budgetary guarantees are sufficient to reimburse

⁸ Due to rounding, totals may not exactly correspond to the sum of individual items. See table C.1 for the representation of the constituent parts of the data represented in table 4.A.

⁹ Gross payments made to the EU over the Transition Period (Feb - Dec 2020) and payments via invoices under Article 148 of WA, which are net of returns to the UK from EU assets.

¹⁰ Receipts relate to returns to the UK outside of the Transition Period (EU Budget) contributions and Article 148 of WA, i.e., EU Budget programme receipts and EIB Paid-in Capital returns.

¹¹ Outturn payments are based on the exchange used at point of transaction. While forecast payments and receipts are based on the spot rate euro/sterling exchange rate on 30th December 2022, £1 = €1.13.

¹² Forecast payments and receipts will vary in outturn due to the financial settlement being in Euro denomination.

the losses on the financial operations, any amounts not used will be returned to the UK creating a net financial benefit to the UK. The Contingent Liability under Article 143 as at 31 December 2021 is €12.3bn. This compares to €12.9bn as at 31 December 2020. The UK has received no new information since the last EUFS 2021 edition. New figures are expected in March 2023 and will be updated in the next iteration of EUFS.

- 4.5 Similarly, under Article 150, the UK remains liable for financial operations approved by the EIB before the withdrawal date. The UK has paid in capital in the EIB that is being returned to the UK on a yearly basis. The contingent liability is in the form of the callable capital subscription to the EIB. The EU may call upon this if there are losses on financial operations greater than the paid in capital. The remote contingent liability is valued at £30.7 billion, as at 31 March 2021¹³. Further details on these remote contingent liabilities related to the financial settlement are set out in HM Treasury Accounts for 2020 to 2021¹⁴. The UK has received no new information since the last EUFS. New figures are expected in March 2023 and will be updated in the next iteration of EUFS.

Factors affecting the size of the settlement

- 4.6 The final value of the settlement, by its nature, cannot be known with certainty at present, since it requires the UK and EU to pay only amounts that fall due, rather than on the basis of an estimate.
- 4.7 HM Treasury has conducted sensitivity analysis on the Financial Settlement to identify the impact that a change in key individual variables would have on the overall settlement value.
- 4.8 A key principle of the Financial Settlement is that the UK will only pay towards EU obligations that actually crystallise. Forecasts of the settlement therefore include an estimate of the EU spending that will be decommitted (planned, but ultimately never spent). The effect of a 1% absolute change in decommitments on the HM Treasury net estimate is estimated to be £150mn.
- 4.9 Under the terms of the Financial Settlement of the WA, the UK continued to make its budget contribution in 2020 in sterling but settles its post-2020 obligations in euro. As a result, any movements in the euro/sterling exchange rate may affect the value of the settlement. The effect of a 1% change in the

¹³ Pg 117

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1004021/HMT_ARA_web_.pdf

¹⁴ See note 9 of HM Treasury's Accounts (p. 175) on Trade and other receivables

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1004021/HMT_ARA_web_.pdf

sterling/euro exchange rate on the HM Treasury net estimate is estimated to be £160mn.

- 4.10 A material 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 future pension liabilities now (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 WA. 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 £150mn.
- 4.11 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 (GF). 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 guarantees¹⁵.

Off-budget funds outside the Financial Settlement

- 4.12 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 WA makes provision for these to ensure there is certainty on how they will be treated. These mainly relate to international development funding, where UK contributions are treated as Official Development Assistance (ODA) and count towards the UK's ODA spending target. They are set out in the Foreign Commonwealth & Development Office's Annual Report & Accounts.

¹⁵ HMT uses a model to produce an assessment of cashflow in respect of financial instruments using assumptions, such as credit ratings, recovery rates and returns on assets/funds. The model is consistent with industry standards for valuations of long-term liabilities of this nature

Table 4.B: Outstanding off-budget development contributions, as at 31 December 2022

Outstanding off-budget contributions (as at 31 December 2022)	(€ millions)	(£ millions) ¹⁶
European Development Fund ¹⁷	777	689
Facility for Refugees in Turkey ¹⁸	21	18

European Development Fund

- 4.13 The most recent statements from the EC detail contributions in 2022 from Member States and forecasts of commitments, payments, and contributions from Member States for 2022 and 2024; and non-binding forecasts for the years 2025 to 2026. Although the EC has not yet produced contribution forecasts for years after 2026, the government expects European Development Fund (EDF) contributions to continue until c. 2029 to 2030 as projects the UK is committed to are implemented and finalised.
- 4.14 The EIB African, Caribbean and Pacific (ACP) Investment Facility 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 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 basis¹⁹. The WA confirms that the UK's share of the facility will be returned to the UK as the investments mature, unless agreed otherwise. At the end of 2022, the UK's share is estimated to be around €0.5 billion²⁰ (£0.4 billion), less any loss.
- 4.15 Under the terms of the WA, the UK will also remain liable in respect of its guarantee to EIB own resources lending to ACP countries and the Overseas Countries and Territories, 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

¹⁶ Based on the spot rate euro/sterling exchange rate on 30th December 2022.

¹⁷ HM Treasury calculations using EDF internal agreements and EU Commission annual communications forecasting commitments, payments, and contributions from Member States.

¹⁸ 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

¹⁹ <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

²⁰ EIB-Member State - Guarantee Agreements (Cotonou I II III) - UK - 2021 1st half year report.

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 31 December 2022, the UK's total contingent liability on EIB loans under these guarantees was €0.2 billion (£0.1 billion) over a period up to and including 2050. Under the terms of the WA, the UK will honour its contingent liabilities under this guarantee in full, which includes loans approved up to the end of 2020.

Table 4.C: UK contributions and forecast contributions to EDF, as at 31 December 2022

Year	(€ millions)	(£ millions)
2023	201	178
2024	235	208
2025	133	118
2026	88	78

Source: European Commission Communication October 2022.
Based on the spot rate euro/sterling exchange rate on 31st March 2022, £1 = €1.13.

The Facility for Refugees in Turkey

4.16 The UK has remaining commitments to the Facility for Refugees in Turkey described in paragraph 2.44. As with EDF, these contributions count as ODA, with bilateral contributions currently paid using powers provided in the International Development Act 2002. As at 31 December 2022 the U's outstanding payments came to €21mn (£18mn).

Non-development outstanding off-budget contributions

4.17 As detailed in paragraph 2.45, the UK has obligations to the European Defence Agency (EDA), the European Union Institute for Security Studies (EUISS), and the European Union Satellite Centre (EUSC), as well as to the common costs of Common Security and Defence Policy operations (CSDP).

Treatment of the Financial Settlement in government accounts

4.18 Now that the UK is no longer an EU Member State, payments to the EU under the WA are now 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. There may be other non-WA related payments to the EU by UK Government Departments which would be covered in their respective annual accounts.

- 4.19 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 department's accounts. Although they are classified as 'public sector' receipts, they are in fact typically destined for the private sector (such as the Common Agricultural Policy, 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 (FRoM) and the Government Resources and Accounts Act 2000. The accounting standards contained in the FRoM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.
- 4.20 HM Treasury recognised a provision representing its liability for the amounts it needed to pay to the EU as of 31 March 2021 in the HM Treasury Accounts 2020/21. This included, for example, the UK's share of the EU's outstanding commitments at the end of 2020 (the so-called RAL). This did not reflect the complete Financial Settlement and therefore does not present the 'cost' of the Financial Settlement, as shown above. HM Treasury accounts also disclosed other contingent items relating to EU financial obligations covered by the WA.
- 4.21 The return of the UK's paid in capital in the EIB also appears in the HM Treasury Accounts. In addition, the contingent liability the UK maintains under the WA is included in respect of any potential call after 31 March 2021.

OLAF (Chinese Textiles) Infraction

- 4.22 The Court of Justice of the European Union (CJEU) issued a judgement in March 2022 relating to the alleged underpayment of customs duties on Chinese textiles and footwear. The Court determined that the UK owed amounts of Traditional Own Resources (TOR) relating to customs duty it failed to collect, and that such TOR was due to the EC. Under the EU Withdrawal Act, the UK must fulfil its legal obligations following this judgement to pay outstanding TOR relating to outstanding custom duties.
- 4.23 Considering this, the UK made principal payments in June 2022 and January 2023 totalling €1,378,724,623.94 the UK towards this case. This was followed by €1,227,884,519.53 interest payment to fully resolve this case. Further details were provided in the

Written Ministerial Statement²¹. This brings to an end this long running case with the European Commission confirming on 15th February 2023 that the case had formally been closed.

Global Margins for Commitments

4.24 The EU proposed a range of budgetary responses to respond to the pressures of COVID-19, which increased in-year commitment appropriations for the EU annual budget 2020. As set out in the previous EUFS, the EC has confirmed that the UK has no liability to contribute in respect of certain appropriations because of the protections secured in the WA. However, discussions with the EU have continued over an area of special instrument use, the 'Global Margins for Commitments', which the EC deemed the UK liable for. These discussions continue to take place in compliance with the governance structures set out under the WA.

²¹ Written statements – Customs Update: <https://questions-statements.parliament.uk/written-statements/detail/2023-02-09/hcws561>

Chapter 5

Financial Commitments under the Trade and Cooperation Agreement

- 5.1 As noted in last year's statement, the United Kingdom (UK) – European Union (EU) Trade and Cooperation Agreement (TCA) was signed and adopted by the United Kingdom Parliament on 30 December 2020 before being ratified in April 2021. Among other things, the TCA governs and provides a framework for the UK's participation in a limited number of EU programmes as a third country. For the 2021-2027 Multiannual Financial Framework (MFF) the UK negotiated access to Horizon Europe (Research and Development), Euratom Research and Training (R&T), Fusion for Energy (Nuclear Research), Copernicus (Earth Observation) and cost-free access to the EU Space Surveillance and Tracking programmes.
- 5.2 At the date of publication, the EU has not agreed to finalise the UK's association to the EU Programmes and the UK has taken necessary steps to reassure and invest in the sector. Further information on these measures has been set out by the relevant departments on Gov.uk.
- 5.3 As the UK is not currently associated, no payment was made to EU Programmes during the period covered by this statement.
- 5.4 Future publications of the EUFS will not include updates on the financial contributions in relation to EU Programmes association. If the UK associates, payments would form part of normal departmental spending. Therefore, UK contributions would be reported in the relevant departments' annual report and accounts and as part of normal budgetary disclosures.

Peace Plus

- 5.5 In the Joint Declaration on Participation in the Union Programmes and Access to Programme Services, the UK and the EU recalled their commitments to the Peace Plus programme, which is the subject of a separate financing agreement. The government remains deeply committed to Peace Plus and confirmed in September 2021 that the UK will be investing more

than £0.7 billion²² into the programme to support economic stability, peace, and reconciliation in Northern Ireland. This represents almost 75% of the total budget of almost £1 billion – the biggest Peace programme to date – and delivers in full on the UK’s commitments to the programme.

- 5.6 The government has been working with the European Commission, the Irish government, and the Northern Ireland Executive to finalise the text of the future UK-EU Financing Agreement on Peace Plus. The Agreement sets out the UK’s total and annual financial contributions to the programme, balanced provisions to ensure the sound financial management of the programme funds, as well as appropriate governance arrangements.

²² UK announces majority contribution to PEACE PLUS funding - GOV.UK
(<https://www.gov.uk/government/news/uk-announces-majority-contribution-to-peace-plus-funding>)

Annex A

Technical annex of Forecast methodologies

A.1 This annex reviews the government's original estimated 'cost' range of the Financial Settlement and compares it to HM Treasury's revised point estimate. HM Treasury's reporting framework and accounting methodologies are then explained and compared to the Office of Budget Responsibility (OBR) and the European Commission (EC)'s approaches, to account for the differences in their respective estimations.

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

- A.2 In a previous edition of the EUFS, the government's settlement estimate was based on the UK's actual departure date and excluded Article 50 extension payments. This figure was then adjusted for the original exit date, producing a second figure, which could be reconciled with the central range on a like-for-like basis.
- A.3 This edition aims to simplify the presentation to produce a clearer narrative by giving only one figure to reconcile with the original range. This year's edition of the EUFS follows the recommendations from the European Scrutiny Committee in relation to how the information is presented in this document. Figures for the total amount invoiced and paid in 2021 (Chapter 2, paragraphs 2.16 to 17) and for the estimated total outstanding (Chapter 4, paragraph 4.2) are set out in the main body of the text.
- A.4 While we consider those figures to be the most helpful in understanding the size of the financial settlement, HM Treasury has also calculated estimates based on the previous methodology to aid comparability with past statements, as set out below.
- A.5 Following the publication of the Joint Report from the Negotiators of the European Union and the United Kingdom (UK) government in December 2017, the government provided a reasonable central estimate of the size of the Financial Settlement of €40 to 45 billion or £35 to 39 billion, based on the exchange rate and assumptions at the time.

- A.6 The current estimate calculated on the same basis as the original range is £37.9 billion. This corresponds to the Treasury's current point estimate of the financial settlement, £30.9 billion (as set out in Table 4.A), plus £6.9 billion (€7.8 billion) in net membership contributions provided to the EU over the extension Article 50. It is presented in Table A.1 to enable comparison with the original range.
- A.7 The latest estimate has returned within the range of the original reasonable estimate, above. This is primarily due to the reduction in the estimation of the UK's share of Article 142 pensions costs due to current economic variables, namely sterling exchange rates and an increase in discount rates. The Treasury's modelling of all assets and liabilities is constructed using the latest economic and budgetary data for accuracy and reliability of estimation.

Table A.1: Comparison of original range to new HM Treasury point estimate

Component of the settlement (bn)	Original Range	Treasury point estimate (31 st March 2022)
Net Budgetary Contributions to end 2020	€17-18	€17.9
Of which: Contributions over Article 50 Extension ²³	-	€7.8
Contributions over Transition Period	-	€10.1
RAL (net) from end 2020	€21-23	€23.6
Assets and Liabilities	€2-4	€1.7
Original Settlement Range²⁴	€40-45	€43.2
	£35-39³	£37.9

- A.8 The UK point estimate takes into account the following:
- **Payments made during the Article 50 extension:** 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, some UK and

²³ Estimated contributions and receipts sent and received by the UK over the Article 50 Extension, April 2019 - January 2020.

²⁴ Due to rounding, totals may not exactly correspond to the sum of individual items

EU payments that would originally have been paid post-withdrawal were instead paid while the UK remained a Member State. Net contributions during the Article 50 extension (that is between April 2019 and January 2020) are identified and included here to support comparison on a like-for-like basis with the original estimated range.

- **Payments made during the Transition Period:** HM Treasury's estimate also includes net UK contributions to the EU budget during the transition period, between 31 January and 31 December 2020. This inclusion also ensures the estimate is reconcilable to the original range.
- **Payments during 2022:** as detailed in Chapter 2, HM Treasury's estimate includes instalments from the April and September invoices paid in 2022
- **Outstanding liabilities:** as detailed in Chapter 4, HM Treasury's estimate includes outstanding instalments from the September invoice and an updated forecast of liabilities from June 2023 onwards.

Alternative methodologies

A.9 The OBR and EC produce their own estimates using different reporting methodologies. The result is three different estimated figures.

Comparison with the OBR forecast:

A.10 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.

A.11 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 Reste à Liquider (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 updated Treasury estimate uses the spot rate at the end of the 2021 to 2022 financial year.

- **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 (WA) provides the option for the UK to settle pension obligations early (if the UK so chooses), based upon a discounted amount. This distinction in methodology is the largest source of difference between the two estimates.
- **The payment dates considered differ:** unlike HM Treasury, the OBR's estimate focuses on the payments to be paid over the fiscal forecast period, rather than the full length of the Financial Settlement.

Table A.2: Comparison between treasury estimate and the OBR forecast

Amount, based on 31 st January 2020 exit (£bn)	
OBR estimate (Payments under Financial Settlement between 21/22 to 27/28)²⁵	27.2
Payments made/forecast outside of 21/22 - 27/28	11.0
Exchange rate differences	-0.1
Discounting for Pensions Liability	-7.1
Modelling and data source differences	-0.1
HM Treasury estimate (31st March 2022)	30.9

Comparison with the EC's published Accounts

A.12 In July 2022, the EC published an estimate of the UK's liability under the Financial Settlement of €41.8 billion in its annual accounts²⁶. There are several important differences which account for the differences between HM Treasury's estimate and that of the EC:

- **Direct payments only:** the EC's estimate, unlike the Treasury's and OBR's, includes only those payments made

²⁵ OBR - October 2021 Economic and Fiscal Outlook: Table A.8

²⁶ The EU's Annual accounts can be found at: https://ec.europa.eu/info/publications/annual-accounts_en

between the EU and UK government. This excludes payments made directly to a third party or via a body, legally distinct from the EU budget, such as:

- Payments which will be made to UK recipients for the remaining life of EU funding programmes commenced before the end of the transition period from EU funding programmes. Which in Treasury's central estimate is valued at around €9.5 billion, for the period of 2021 to 2028.
- The UK's €3.5 billion of uncalled capital held and due to be refunded by the European Investment Bank (EIB) between 2020 and 2031.
- **The payment dates included differ:** the EC's estimate only refers to UK payments to the EU from 1 January 2021, the formal exit date. Therefore, the EC excludes payments made during the Transition Period, which are included in the HM Treasury estimate.
- **WA components included:** unlike the UK, the EU does not include a forecast or estimate for all components of the settlement, part of these are the indirect payments as mentioned above, but also liabilities and assets that have not crystallised. This is because the purpose of the EU's estimate is to provide an accounting estimate of known costs to and from the EU. Whereas Treasury's estimate is to provide the public with a fair and accurate cost estimate of the total Financial Settlement, which includes estimates of receipts that are expected to be received.

A.13 Due to the reasons above, the Treasury's estimate of the net Financial Settlement and the EC's accounting valuation of the EU's liability under the WA are not directly comparable. However, in line with the WA, the data used for both estimates is consistent. Additionally, there are valid differences in assumptions which create some divergences, primarily due to the objectives of each estimate.

Annex B

Residual receipts from the 2014 to 2020 Multi-annual Financial Framework (MFF)

Financial management and anti-fraud summary

- B.1** While the United Kingdom (UK) stopped contributing to the EU budget at the end of 2020, under the Withdrawal Agreement (WA) the UK will continue to participate in programmes funded under the 2014 to 2020 MFF until their closure, and benefit from the rights and obligations under them. As some of these programmes have continued beyond 2020, the assessment of financial management of the European Union (EU) Budget and associated anti-fraud measures remains relevant. However, from 2021 onwards, only budget lines relating to the 2014-2020 MFF are relevant to the UK.
- B.2** The UK continues to manage the funding it receives under the 2014 to 2020 MFF and ensure the proper use of EU funds, but it is no longer actively involved in the management of the EU budget as a Member State.
- B.3** European Court of Auditors (ECA) annual report on the 2021 EU Budget: The ECA is the EU's independent auditor and is responsible for assessing the accounts and payments of EU institutions²⁷. The ECA is required to provide the European Parliament and Council with an annual report on the implementation of the EU Budget.
- B.4** ECA's Statement of Assurance: Within the ECA annual report, there is a Statement of Assurance. In the ECA's opinion, the 2021 EU Budget accounts were reliable and gave a fair representation of the financial position, the results of its operations, its cash flows, and the changes in its net assets for the year. The ECA considers an estimated error rate above 2% to be material. The

²⁷ The European Court of Auditors annual report on the 2021 EU Budget can be found

https://www.eca.europa.eu/Lists/ECADocuments/annualreports-2021/annualreports-2021_EN.pdf

ECA found that payments (EU spending) continued to be affected by material error with an estimated error rate of 3.0% for the 2021 EU Budget as a whole, a 0.3% increase since the 2020 budget.

- B.5** Council recommendation to the European Parliament on Discharge: These are published annually with the last one released on 3 March 2022²⁸ and covering the 2020 EU Budget. As such it was included in the last edition of the EUFS, and the recommendation pertaining to the 2021 EU Budget will instead be included in the next edition of the EUFS if relevant.
- B.6** The European Parliament takes a financial decision on whether to discharge the EU budget: No resolution has yet been formally approved for the discharge of the EU Budget accounts for 2021. As such, any resolution will be included in the next edition of the EUFS if relevant.
- B.7** Fight against Fraud Report 2021: The EU and national anti-fraud players have strengthened their cooperation throughout 2021, both in relation to the protection of EU revenue and expenditure. The European Public Prosecutor's Office (EPPO) started its operations on 1 June 2021. In 2021 the EU completed the adoption of the 2021-2027 spending programmes. The legislation ensures that the Commission, OLAF, the European Court of Auditors and the EPPO can exercise their mandate and that national authorities put in place effective anti-fraud measures taking into account any risk identified. This is further explained in the report²⁹.
- B.8** Twenty-second Report of the European Anti-Fraud Office: The European Anti-Fraud Office (OLAF) is a body which carries out independent investigations into fraud, corruption and other illegal activities affecting the EU. It also develops anti-fraud policy for the EC. The twenty-second report which is the latest issued in June 2022 was covered in the last edition of the EUFS³⁰.

²⁸ The Council recommendation on the discharge to be given to the Commission in respect of the implementation of the general budget of the European Union for the financial year 2020 can be found at: https://ec.europa.eu/info/publications/discharge-2020-council-recommendations_en
[https://www.europarl.europa.eu/cmsdata/246141/CONS_CONS\(2022\)06001_REV01_EN.pdf](https://www.europarl.europa.eu/cmsdata/246141/CONS_CONS(2022)06001_REV01_EN.pdf)

²⁹ The 2021 Fight against Fraud Report can be found at: https://anti-fraud.ec.europa.eu/system/files/2022-09/pif-report-2021_en_0.pdf

³⁰ OLAF's twenty-second activity report can be found at: https://ec.europa.eu/anti-fraud/system/files/2022-06/olaf-report-2021_en_2.pdf

Government strategy for use of EU funds and managing disallowances summary

- B.9** Under the Withdrawal Agreement (WA) the UK will continue to participate in programmes funded under the 2014 to 2020 MFF until their closure, and benefit from the rights and obligations under them³¹. 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.
- B.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 were agreed with the EC 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.
- B.11** The funds which the UK was participating in are the Common Agricultural Policy (CAP) Pillar 1, and European Structural and Investment Funds (ESIF). ESIF programmes for the 2014 to 2020 MFF are still operational across the UK until end of December 2023 after which they will be closed. CAP Pillar 1, funded through the European Agricultural Guarantee Fund (GF), primarily involved direct payments to farmers and was the largest source of UK receipts. The UK left the CAP direct payments scheme in 2020, as 2020 scheme year payments were funded from the 2021 EU budget, to which the UK did not make a contribution.
- B.12** The ESIFs include the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development, (sometimes referred to as the second pillar of CAP) and the European Maritime and Fisheries Fund (EMFF). These make up the second largest proportion of UK public sector receipts from the EU and involve investment in the real economy by supporting job creation and economic growth. The UK Partnership Agreement³² sets out the

³¹ Information on continued UK participation in EU programmes can be found here:

<https://www.gov.uk/government/publications/continued-uk-participation-in-eu-programmes/eu-funded-programmes-under-the-withdrawal-agreement>

³² The UK Partnership Agreement can be found at: <https://www.gov.uk/government/publications/european-structural-and-investment-funds-uk-partnership-agreement>

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.

Government strategy for minimising disallowance

- B.13** As part of its oversight of EU Budget spending, the EC can impose financial corrections on Member States for failing to apply EU Regulations correctly in managing and administering EU schemes. In such circumstances, the EU reduces the amount paid to the Member State. These corrections are known as 'disallowance'. The UK will continue to be subject to financial corrections until all programmes for the 2014 to 2020 MFF have closed.
- B.14** 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. As set out in the November 2016 response to the Public Accounts Committee, the Treasury exercises close oversight of the disallowance incurred by departments. For example, the Treasury coordinates the annual UK response to the 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 EC's conformity audits. The EC is the only actor that can apply a financial correction.
- B.15** 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 where appropriate
 - while a Member State, we engaged with the EU on rules governing expenditure to minimise errors which are attributable to the complexity of the regulations governing programme participation
- B.16** 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 where it is cost-effective to do so. Appropriate measures will vary between departments and funds and are set out more fully in department reporting/publications³³.

³³ Details of some of these measures can be found here:

Rural development programme: <https://www.gov.uk/government/organisations/rural-development-programme-for-england-network>

ERDF: <https://www.gov.uk/government/publications/european-regional-development-fund-annual-implementation-reports>

ESF: <https://www.gov.uk/government/publications/annual-implementation-report-2020>

EMFF UK: <https://www.gov.uk/guidance/european-maritime-and-fisheries-fund-emff-uk-managing-authority-ukma>

Annex C

Cumulative Payments and Receipts

Table C.1: Cumulative Payments and Receipts made before and after 31st December 2022

Payments to the EU (£bn) ³⁴	Feb 2020 - End-2022			2023 Onwards ³⁵		
	Gross ³⁶	Receipts ³⁷	Net	Forecast Gross ³⁸	Forecast Receipts ³⁹	Net
Total	30.6	-12.9	17.7	18.7	-5.5	13.2
Contributions to Budget up to end 2020	14.7	-5.8	8.9	-	-	-
RAL from end 2020	16.1	-6.3	9.8	13.9	-3.2	10.8
Assets and Liabilities	-0.1	-0.8	-0.9	4.7	-2.3	2.4
o/w Pensions	0.2	-	0.2	8.6	-	8.6
o/w EIB Paid-In Capital	-	-0.8	-0.8	-	-2.3	-2.3
o/w Other	-1.1	-	-1.1	-3.8	-	-3.8

³⁴ Outturn payments are based on the exchange used at point of transaction. While forecast payments and receipts are based on the spot rate euro/sterling exchange rate on 30th December 2022, £1 = €1.13.

³⁵ Forecast payments and receipts are based on HMT internal estimates and will be adjusted for outturn. These outturn payments may vary due to the financial settlement being in Euro denomination.

³⁶ Gross payments made to the EU over the Transition Period (Feb - Dec 2020) and payments via invoices under Article 148 of WA, which are net of returns to the UK from EU assets

³⁷ Receipts relate to returns to the UK outside of the Transition Period (EU Budget) contributions and Article 148 of WA, i.e. EU Budget programme receipts and EIB Paid-in Capital returns. Due to rounding, totals may not exactly correspond to the sum of individual items.

³⁸ Gross payments made to the EU over the Transition Period (Feb - Dec 2020) and payments via invoices under Article 148 of WA, which are net of returns to the UK from EU assets

³⁹ Receipts relate to returns to the UK outside of the Transition Period (EU Budget) contributions and Article 148 of WA, i.e. EU Budget programme receipts and EIB Paid-in Capital returns. Due to rounding, totals may not exactly correspond to the sum of individual items.

- C.1 Annex C represents a new addition to the EUFS. Table C.1 outlines the cumulative payments and receipts made before and after 31st December 2022.
- C.2 The table provides a breakdown the estimates presented in Table 4.A, Table C.1 outlines the gross payments, receipts, and net payments for the period February 2020 until 31st December 2022, as well as the forecasted contributions from 1st January 2023 onwards. The table also outlines the division of these figures into their constituent parts. Further, more detailed, information on the division of the annual payments can be found in Chapter 2.
- C.3 The inclusion of Table C.1 in the EUFS 2023 ensures that detailed and accurate figures on the payments made by the UK to the EU, and the EU to the UK, are available, and that they clearly outline the constituent parts of the Net figure.

Annex D

Glossary

Table 5.A: Acronym Definitions

Acronym	Definition
ACP	African, Caribbean and Pacific
AUP	Agreed Upon Procedures
CJEU	Courts of Justice of the European Union
CSDP	Common Security and Defence Policy operations
DEFRA	Department for Environment, Food & Rural Affairs
DG BUDG	European Commission's Department for Budget
EC	European Commission
ECA	European Court of Auditors
ECSC	European Coal and Steel Community
EDA	European Defence Agency
EDF	European Development Fund
EFSD	European Fund for Sustainable Development
EFSI	European Fund for Strategic Investment
EIB	European Investment Bank
EIF	European Investment Fund
ELM	External Lending Mandate
EMFF	European Maritime and Fisheries Fund
EPPO	European Public Prosecutor's Office
ERDF	European Regional Development Fund
ESF	European Social Fund

ESIF	European Structural and Investment Funds
EUFS	European Union Finances Statement
EUISS	European Union Institute for Security Studies
EUSC	European Union Satellite Centre
FI	Financial Instrument
FreM	Financial reporting Manual
GF	Guarantee Funds
IFRS	International Financial Reporting Standards
MFF	Multiannual Financial Framework
OBR	Office of Budget Responsibility
ODA	Official Development Assistance
OLAF	European Anti-Fraud Office
RAL	Reste à Liquider
SCFP	Specialised Committee on Financial Provisions
TCA	Trade and Cooperation Agreement
TOR	Traditional Own Resources
WA	Withdrawal Agreement
WAA	The European Union (Withdrawal Agreement) Act 2020
WAJC	Withdrawal Agreement Joint Committee
WEU	Western European Union

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