HM Treasury

The European Union Finances Statement 2023:

Statement on the implementation of the Withdrawal Agreement

CP 1043

March 2024

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Statement on the implementation of the Withdrawal Agreement

Presented to Parliament by

the Chief Secretary to the Treasury

by Command of His Majesty

March 2024

CP 1043

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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 (WA).

1.2 This 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.

1.3 This European Union Finances Statement (EUFS) reports on the implementation of the financial elements of the WA (the 'Financial Settlement'), in which the UK and EU agreed to settle liabilities to each other arising from the period of the UK's membership. This edition of the EUFS focuses on the period 1 January to 31 December 2023. It gives a breakdown of the invoices received from the EU, setting out payments made in 2023. It then covers the UK's processes to verify that the invoices are correct. The document also provides a forecast of the UK's outstanding liabilities.

1.4 Annex A compares HM Treasury's forecasting methodology with those of the Office of Budget Responsibility (OBR) and the European Commission (EC). Annex B outlines cumulative payments and receipts under the Financial Settlement.

1.5 As the UK-EU financial relationship evolves and UK commitments change, the EUFS must evolve to represent relevant, updated information. This edition of the EUFS contains minor adjustments to the previous edition, to ensure HMT accurately reflects commitment changes and updates to government reporting.

1.6 The EUFS now focuses on payments due under the WA. It does not therefore cover other payments made to the EU, for instance under the Trade and Cooperation Agreement. These are reported in the relevant departments' annual report and accounts and as part of normal budgetary disclosures.

1.7 In particular, on 7 September 2023 the UK and EU announced UK association to the EU Programmes Horizon Europe and Copernicus from 1 January 2024. Payments for these programmes are the responsibility of, and reported by, the

Department for Science, Innovation and Technology. Additionally, the financing agreement for the Peace Plus programme entered into force as of 14 June 2023, and sets out the UK's total and annual financial contributions to the programme. Payments for this programme are the responsibility of, and reported by, the Northern Ireland Office.

1.8 Further, smaller, changes have been made to the EUFS to reflect the evolution of the Financial Settlement. These include the removal of some redundant reporting on residual receipts from EU programmes, and some changes to the reporting of recent payments and assurance arrangements. These changes improve the clarity of the document, while continuing to furnish all necessary information to meet HM Treasury's objective of providing transparency to Parliament on the Financial Settlement.

Chapter 2

Payments in 2023 and Assurance Framework

Overview of the Withdrawal Agreement (WA)

2.1 The WA[1] sets out the UK's rights and obligations under the Financial Settlement. This is based on three agreed principles that ensure a fair deal for UK taxpayers.

2.2 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.

2.3 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.

2.4 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 sides' 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

2.5 The European Union (Withdrawal Agreement) Act 2020 (WAA) implemented the WA into domestic law. Section 20 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.

2.6 The end of the standing service provision during 2021 means that the majority of net liabilities arising under the WA going forward

[1] New Withdrawal Agreement and Political Declaration

will be met from HM Treasury's Supply Estimates and recorded in the department's annual report and accounts.

2.7 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. This is because TOR payments consist of customs duties historically collected by the UK acting as an agent for the EU.

2.8 The WAA does not grant payment authority relating to any other agreements between the UK and EU, including any under the TCA.

Assets and Liabilities

2.9 The UK pays its share of the EU's liabilities as recognised at 31 December 2020. Likewise, it benefits from a share of EU assets. 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.

2.10 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.

2.11 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. Where the possibility of an outflow of resources is remote these are not disclosed in the accounts under international accounting standards, such as IAS 37 on Provisions, Contingent Liabilities and Contingent Assets.

The Payment Process

2.12 Under the WA, the EU issues two invoices each year - one in April and the other in September. The April invoice is paid in four equal monthly instalments from June to September. The September invoice is paid in eight monthly instalments from October to May. Liabilities are settled in Euros at the exchange rate prevailing on the date of each monthly payment.

2.13 From January to May 2023, the UK fulfilled the 5 remaining monthly payments from the September 2022 invoice on time and in full, €3,998,095,090 (£3,514,005,294). Details of this Invoice were set out in last year's EUFS[2].

2.14 The April 2023 invoice provided a single net liability for the UK of €3,573,167,208 (£3,081,089,335). All instalments of the invoice were paid in full and on schedule. The September 2023 invoice provided a single net liability for the UK of €5,013,239,549 (£4,359,752,457[3]). Three instalments totalling €1,879,964,829 (£1,631,923,485) were due during 2023 and were paid in full and on schedule. The remaining payments are due in 2024 and will be reported on next year.

2.15 The following table provides the schedule of monthly payments of net liabilities made by the UK in 2023. The payments from January to May are included within the September 2022 invoice and were previously disclosed in the EUFS 2022.

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

Date	Amount (€)	Amount (£)[4]
31st January 2023	799,619,018	703,523,861
28th February 2023	799,619,018	704,378,257
31st March 2023	799,619,018	703,043,989
30th April 2023	799,619,018	708,075,354
31st May 2023	799,619,018	694,983,832
30th June 2023	893,291,802	771,804,117
31st July 2023	893,291,802	766,638,942
31st August 2023	893,291,802	765,979,972
30th September 2023	893,291,802	776,666,304
31st October 2023[5]	626,654,943	545,710,660
30th November 2023	626,654,943	543,659,959

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3 Payments due between January and May 2024 use the spot rate euro/sterling exchange rate on 28th December 2023. The rate on each day is £1 = €1.15.

4 The payments to the EU are euro-denominated, these values are the amounts of Sterling purchased for the required Euros to settle monthly instalments.

5 On the 27th October 2023, the UK paid €601,426 (£524,684) to the EU to cover additional liabilities on Traditional Own Resources. This is not included in the monthly payments figures as it was not featured in the April or September invoices.

31st December 2023	626,654,943	542,552,865
Total Payment under the Financial Settlement of the WA in 2023[6]	9,451,227,130	8,227,018,114

Determining the UK's financing share (A139)

2.16 The UK's financing share under the WA was definitively confirmed in 2022 as 12.431681219587700%. Further details were provided in the 2022 EU Finances Statement.

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

2.17 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.

2.18 In March 2023, the EU reported the overall liability and the amounts payable for expected budgetary contributions for 2023. The amount was payable in twelve equal monthly instalments across the two invoices. The total amount payable under those invoices (including corrections for 2022) was €7,678mn, of which €4,534mn was payable in the seven instalments due in 2023.

2.19 In addition, there were adjustments relating to Traditional Own Resources and Net Financial Corrections. The impact of these adjustments resulted in a €84mn reduction in payments, of which €32mn was returned in 2023.

Fines Revenue (A141)

2.20 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.

2.21 This is included in the September invoice. This year €13mn was reported as due to the UK, of which c.€5mn was due in respect of the three instalments due in 2023.

Pensions liabilities (A142)

2.22 Under Article 142 of the WA, the UK is liable for its share of the EU's liability for pension rights and rights to other employment-related benefits accrued on or before 31 December 2020.

[6] The invoice totals do not reflect the net liability for all components of the Financial Settlement. The UK's share of revenues from the European Investment Bank and receipts to the UK private sector are not reflected in the net invoice payments. For a full breakdown of the UK's net payment estimate in 2023, see Table B.1 in Annex B.

2.23 The majority of the liability is composed of the Pension Scheme for European Officials (PSEO) and Joint Sickness Insurance Scheme (JSIS). Under the WA any payments form part of the April invoice. €259mn was charged this year, and therefore fully paid in 2023.

2.24 A further €29mn was included in the September 2023 invoice in relation to the pension scheme for Members and EU high-level public office holders, of which, €11mn was payable in the three payments due in 2023.

Loans for financial assistance and budgetary guarantees (A143)

2.25 Under Article 143 of the WA, 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). These operations are partly backed by Guarantee Funds (GF) to cover losses on the operations. The UK is due its share of any part of the GF that is unused.

2.26 In the April 2023 invoice, the UK received €313mn. In the September 2023 invoice, €17mn was reported as due to the EU, of which €6mn was payable in the three payments due in 2023.

2.27 The EU guarantees financial operations that its ‘Implementing Partners’, predominantly the EIB and 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 the UK remains liable for its share of the losses on financial operations approved before 31 January 2020.

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

2.28 Financial instruments (FIs) under the scope of Article 144 of the WA make investments in and provide loans under ‘financial operations’ for their specific mandate. There are 89 FIs 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.

2.29 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.

2.30 Under the WA, payments to the UK only occur via the April invoice. The UK received €54mn in the April 2023 invoice.

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

2.31 Under Article 145 of the WA, the UK is entitled to its share of the net assets of ECSC in Liquidation as at 31 December 2020. These were €1,483mn, of which the UK's share is €184mn. This is to be paid back in five instalments from 2021 and included in the annual April invoice exclusively. The April 2023 invoice included a payment to the UK of €37m, which relates to the UK's share of the asset.

Assets of the European Investment Fund (A146)

2.32 Under Article 146 of the WA, 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. This 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 April invoice exclusively. In the April 2023 invoice the UK received c.€7mn, which relates to the UK's share of the asset.

Contingent liabilities from legal cases (A147)

2.33 Under Article 147 of the WA, the UK is liable for its share of the payments required to discharge the contingent liabilities of the EU as of 31 December 2020 that become due in relation to ongoing legal cases,

2.34 This is included exclusively in the April invoice. The 2023 invoice showed a liability for €18mn.

UK receipt of paid-in European Investment Bank (EIB) capital

2.35 In addition to the bi-annual invoice cycle, the UK is owed the repayment of its share (€3.5bn) of the paid-in capital of the EIB over 12 annual instalments payable on 15 October. In 2023 the UK received its fourth payment of €300mn.

2.36 Under the terms of the WAA, the return of the UK's EIB paid-in capital is an asset of the Consolidated Fund unless transferred to HM Treasury. The fourth instalment was transferred to HM Treasury and disclosed in the departmental accounts.[7]

2.37 The UK will maintain a contingent liability in respect of the stock of outstanding EIB operations as at 31 December 2020, which will

[7] HM Treasury Annual Report and Accounts 2022-2023

decrease as the underlying loans and investments are completed.

Verification Process on the Financial Settlement

2.38 Article 134 of the 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. HM Treasury uses this and other information as the basis for extensive assurance work over the invoices received. This ensures that the government and Parliament can have confidence that what is paid and received is in accordance with the WA. Our approach to obtaining assurance is summarised in Box 2.A.

2.39 The WA specifies that the European Commission (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 2023 reports in line with the requirements of the WA. This package includes supporting material including on outstanding commitments at 31 December 2021 for which the UK is liable which relate to RAL liabilities resulting from our membership of the EU, and amounts pertaining to UK liability for pensions for EU officials, and other employment benefits, accrued on or before 31 December 2020.

2.40 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 2023.

2.41 We have worked with the EC and its implementing partners to ensure their systems and controls over financial reporting are suitable for the specific requirements of the WA. Technical interpretations have been agreed by both parties, 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).

Box 2.A 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 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 invoices.
- 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.

Reliance on the European Commission's annual accounts

2.42 The EC's annual accounts for the years ending 31 December 2020 onwards contain additional disclosures related to UK Withdrawal from the EU.

2.43 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.

2.44 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

2.45 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.

2.46 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

Chapter 3

Outstanding liabilities under the Financial Settlement

3.1 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.

Estimated liabilities

3.2 HM Treasury's current estimate of the total net value of the Financial Settlement as at 31 December 2023 is £30.2bn, including settled payments and flows to the UK. The estimated remaining net liabilities as at 31 December 2023 were £6.4bn.

3.3 Table 3.A summarises payments to date and outstanding liabilities under the Financial Settlement. Figures are in €bn with £bn equivalents shown in parentheses. Further detail, including a breakdown of payments on the component parts of the Financial Settlement can be found at Annex B, Table B.1.

Table 3.A: Financial Settlement Payment Breakdown

Component (Time Period)	Gross[8] €bn (£bn)	Receipts[9] €bn (£bn)	Net €bn (£bn)
Total Financial Settlement[10] *Feb 2020 - 2065*	55.9 (48.6)	-21.1 (-18.4)	**34.8 (30.2)**
Payments to date *Feb 2020 - Dec 2023*	44.7 (38.9)	-17.3 (-15.1)	**27.4 (23.8)**
Outstanding Payments *2024 - 2065*	11.2 (9.7)	-3.8 (-3.3)	**7.4 (6.4)**
of which: relate to September 23 Invoice *Jan - May 2024*	3.1 (2.7)	-0.4 (-0.3)	**2.7 (2.4)**
of which: relate to June 2024 onwards[11] *June 2024 - 2065*	8.1 (7.0)	-3.4 (-3.0)	**4.6 (4.0)**

3.4 As outlined in Chapter 2, the UK has contingent liabilities related to Article 143, Article 150, and Article 147.

3.5 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 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 2022 is €11.9bn. This compares to €12.3bn as at 31 December 2021.

3.6 Under Article 150, the UK remains liable for financial operations approved by the EIB before the withdrawal date. The UK has paid in capital to the EIB that is being returned to the UK on a yearly basis. The contingent liability is in the form of the callable capital

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8 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.

9 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.

10 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 28th December 2023. The rate on each day is £1 = €1.15

11 Forecast payments and receipts will be vary in outturn due to the Financial Settlement being in euro denomination. The estimate of outstanding payments is in line with our public estimate methodology, where pensions payments are discounted. Therefore, future payments will differ in size at the time of exchange. Due to rounding, totals may not exactly correspond to the sum of individual items.

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 £32.2bn, as at 31 March 2022[12]. Further details on these remote contingent liabilities related to the Financial Settlement are set out in HM Treasury Accounts for 2021 to 2022. 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.

3.7 Under article 147, the UK remains 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. The legal cases must relate to pre-31 December 2020.

Factors affecting the size of the settlement

3.8 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.

3.9 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.

3.10 A key principle of the Financial Settlement is that the UK will only pay towards EU obligations that actually crystalise. 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 £60mn.

3.11 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 sterling/euro exchange rate is estimated to be £64mn.

3.12 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

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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 £108mn.

3.13 The UK will continue to stand behind contingent liabilities arising from EU financial operations approved before withdrawal. Several of these instruments have associated 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 guarantees[13].

Off-budget funds outside the Financial Settlement

3.14 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.

3.15 The UK has obligations to the European Development Fund, which are expected to continue until c.2030 as projects UK project commitments are implemented. The UK's outstanding contributions are detailed in Table 3.B.

3.16 As of the 31st December 2023, the UK no longer has any outstanding payments on commitments to the Facility for Refugees in Turkey.

[13] 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 3.B: Outstanding off-budget development contributions, as at 31 December 2023

Outstanding off-budget contributions (as at 31 December 2023)	€mn	£mn[14]
European Development Fund[15]	537	468

Treatment of the Financial Settlement in government accounts

3.17 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. There may be other non-WA related payments to the EU by UK government Departments which would be covered in their respective annual accounts.

3.18 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 (FReM) and the government Resources and Accounts Act 2000. The accounting standards contained in the FReM apply IFRS as adapted or interpreted for the public sector context.

3.19 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. The return of the UK's paid in capital in the EIB also appears in the HM Treasury Accounts.

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14 Based on the spot rate euro/sterling exchange rate on 28th December 2023. The rate on each day is £1 = €1.15

15 HM Treasury calculations using EDF internal agreements and EC annual communications forecasting commitments, payments and contributions from Member States

Global Margins for Commitments

3.20 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. The settlement freezes the ceilings for the UK, and the permissible purposes for which UK monies are paid, so that any changes agreed by Member States after UK withdrawal will not impact on the UK. 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.

3.21 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.

3.22 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.

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 OBR and the EC's approaches, to account for the differences in their respective estimations.

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

A.2 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.3 This estimate is not directly comparable to those set out in chapter 3 due to the subsequent extension of the Article 50 period and consequent delay to the UK's withdrawal from the EU. HM Treasury's current estimate calculated on the same basis as the original range is £37.1bn. This corresponds to the Treasury's current point estimate of the Financial Settlement, £30.2bn (as set out in Table 3.A), plus £6.9bn (€7.8bn) in net membership contributions provided to the EU over the extension to the Article 50 period. It is presented in Table A.1 to enable comparison with the original range.

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

Component of the settlement (bn)	Original Range	Treasury point estimate (31 October 2023)
Net Budgetary Contributions to end 2020	€17-18	€17.9
Of which: Contributions over Article 50 Extension[16]	-	*€7.8*
Contributions over Transition Period	-	*€10.1*
RAL (net) from end 2020	€21-23	€23.9
Assets and Liabilities	€2-4	€0.8
Original Settlement Range[17]	**€40-45**	**€42.6**
	£35-39[18]	**£37.1**

A.4 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 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.

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

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

[18] 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 2021 forecast payments and receipts, based on the exchange rate on 28th December 2023. The rate on each day is £1 = €1.15, dependent on time period.

- **Payments during 2023:** as detailed in Chapter 2, HM Treasury's estimate includes instalments from the April and September invoices paid in 2023

- **Outstanding liabilities:** as detailed in Chapter 3, HM Treasury's estimate includes outstanding instalments from the September invoice and an updated forecast of liabilities from June 2023 onwards.

Alternative Methodologies

A.5 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.6 Since March 2018, the OBR have produced an estimate of the size of the Financial Settlement in their Economic and Fiscal Outlook (EFO), which is laid before Parliament.

A.7 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 updated Treasury estimate uses the spot rate at the end of the 2023 calendar 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 WA 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.

- **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 HM Treasury's estimate and the OBR forecast

	Amount, based on 31 January 2020 exit (£bn)
OBR estimate (Payments under Financial Settlement between 23/24 to 28/29)[19]	**11.2**
Payments made prior to 23/24 and forecast after 28/29	28.3
Exchange rate differences	0.2
Discounting for Pensions Liability	-9.0
Modelling and data source differences	-0.5
HM Treasury estimate (31st March 2023)	**30.2**

Comparison with the EC's published Accounts

A.8 In July 2023, the EC published an estimate of the UK's liability under the Financial Settlement of €23.9bn in its annual accounts.[20] 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 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. In Treasury's central estimate, these are valued at £9.6bn, for the period of 2021 to 2028.

19 OBR – Spring 2024 Economic and Fiscal Outlook: Table A.7

20 European Commission Annual Accounts 2022

    - The UK's €3.5bn of uncalled capital held and due to be refunded by the 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 following the Transition Period. 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. That includes the indirect payments as mentioned above, but also liabilities and assets that have not crystalised. This is because the purpose of the EU's estimate is to provide an accounting estimate of known costs to and from the EU. By contrast, HM Treasury's estimate aims to provide Parliament and the public with a fair and accurate cost estimate of the total Financial Settlement, which includes receipts that are expected to be received. However, in line with the WA, the data used for both estimates is consistent.

Annex B

Cumulative Payments and Receipts

Table B.1: Cumulative Payments and Receipts made before and after 31st December 2023 [21]

Payments to the EU	Feb 2020 - End-2023			2024 Onwards[22]		
	Gross[23]	Receipts[24]	Net	Forecast Gross	Forecast Receipts	Net
Total £bn	**38.9**	**-15.1**	**23.8**	**9.8**	**-3.3**	**6.4**
€bn[25]	44.7	-17.3	27.4	11.2	-3.8	7.4
Contributions to Budget up to end 2020 £bn	14.7	-5.8	8.9	-	-	-
€bn	*16.6*	*-6.5*	*10.1*	-	-	-
RAL from end 2020 £bn	23.6	-8.3	15.3	6.6	-1.3	5.2
€bn	*27.5*	*-9.6*	*17.9*	*7.5*	*-1.5*	*6.0*
Assets and Liabilities £bn	0.6	-1.0	-0.5	3.2	-2.0	1.2
€bn	*0.6*	*-1.2*	*-0.6*	*3.7*	*-2.3*	*1.4*
o/w Pensions £bn	*0.5*		*0.5*	*7.0*		*7.0*
€bn	*0.6*		*0.6*	*8.1*		*8.1*
o/w EIB Paid-In Capital £bn		*-1.0*	*-1.0*		*-2.0*	*-2.0*
€bn		*-1.2*	*-1.2*		*-2.3*	*-2.3*
o/w Other £bn	*0.1*		*0.1*	*-3.8*		*-3.8*
€bn	*0.1*		*0.1*	*-4.4*		*-4.4*

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

22 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. The estimate of outstanding payments are in line with our public estimate methodology, where pensions payments are discounted. Therefore, future payments will differ in size at the time of exchange.

23 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.

24 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..

25 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 28th December 2023. The rate on each day is £1 = €1.15

B.1 Table B.1 outlines the cumulative payments and receipts made before and after 31st December 2023, for all aspects of the Financial Settlement.

B.2 The UK is estimated to have paid £6.1bn in net liabilities in 2023. Whilst payments in the April and September invoices totalled £8.2bn, as shown in Table 2.A, this does not reflect the full net financial settlement liability. The UK also receives revenues from the European Investment Bank[26] and private sector receipts which are not incorporated into the net invoice totals.

B.3 The table provides a further breakdown of the estimates presented in Table 3.A, outlining the gross payments, receipts, and net payments for the period February 2020 until 31st December 2023, and the forecasted contributions from 1st January 2024 onwards.

B.4 The UK has now paid an estimated net figure of £23.8bn since February 2020. We estimate that the outstanding net liabilities in future years total £6.4bn[27].

[26] See paragraph 2.35 of Chapter 2 for further details.

[27] The estimate of outstanding payments are in line with our public estimate methodology, where pensions payments are discounted. Therefore, future payments will differ in size at the time of exchange.

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This document can be downloaded from www.gov.uk

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