



# Briefing on EU-UK finances

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The National Audit Office (NAO) scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of £1.21 billion in 2015.

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# About this briefing

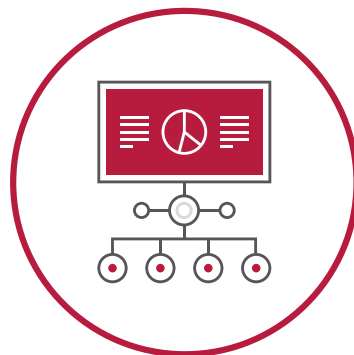
The National Audit Office (NAO) has prepared this briefing to provide Parliament with information on the financial relationship between the UK and the European Union (EU). It is intended to assist scrutiny of the government's strategy for leaving the EU. The briefing:

This briefing is based exclusively on information in the public domain, and builds on previous NAO work in this area, including [Financial management of the European Union budget in 2014: a briefing for the Committee of Public Accounts](#). Other relevant NAO reports are also highlighted.

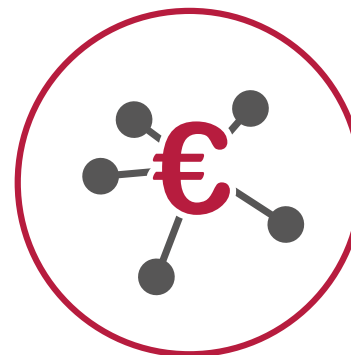
The content of this briefing has been shared with key stakeholders to verify the accuracy of the information it contains.



sets out some relevant background information about the EU



sets out EU revenue, payments, assets and liabilities



provides some information on how and where EU payments to the UK are spent

# EU treaties

## EU treaties are binding international agreements

For EU member states, EU treaties are binding international agreements, ratified by national parliaments or through referendums.

Every action taken by the EU is founded on treaties. They set out:

- EU objectives;
- rules for EU institutions;
- how decisions are made; and
- the relationship between the EU and its member states.

## Article 50 of Treaty on European Union

Article 50 acknowledges that a member state may decide to withdraw from the EU. The UK government has indicated that it will trigger Article 50 by the end of March 2017.

### Notes

- 1 Dates refer to when a treaty came into force.
- 2 Earlier treaties are now consolidated into what is referred to as 'the Treaties': Treaty on European Union, and Treaty on the Functioning of the European Union.

## The following EU treaties are currently in force<sup>1,2</sup>

### Treaty establishing the European Atomic Energy Community (1958) 1

This treaty establishes the task of the Community as contributing to raising the standard of living in member states, and developing relations with other countries by creating the conditions necessary for the speedy establishment and growth of nuclear industries.

### Treaty on European Union (1993) 2

This treaty establishes the EU, on which member states confer competences to attain common objectives. It also introduces ever-closer union among the peoples of Europe, in which decisions are taken as openly as possible and as closely as possible to the citizen.

### Treaty on the Functioning of the European Union (2009) 3

This treaty organises the functioning of the EU, and determines the areas of, delimitation of, and arrangements for, exercising its competences.

### Charter of Fundamental Rights of the European Union (2009) 4

This treaty recognises EU rights, freedoms and principles.

### Treaty of Lisbon (2009) 5

Amended the text of the Treaty on European Union, and renamed the Treaty establishing the European Community as the Treaty on the Functioning of the European Union.

# EU institutions

## Institutions created by treaty

"The Union shall have an institutional framework which shall aim to promote its values, advance its objectives, serve its interests, those of its citizens and those of the Member States, and ensure the consistency, effectiveness and continuity of its policies and actions."  
(Treaty on European Union)

The Treaty on European Union contains provisions for seven institutions:



### European Parliament

Directly elected body with legislative, supervisory and budgetary responsibilities.



### European Council

Defines the general political direction and priorities of the EU.



### Council (of the European Union)

Voice of EU member governments, adopting EU laws and coordinating EU policies.



### European Commission

Promotes the general interests of the EU by proposing and enforcing legislation as well as by implementing policies and the EU budget.



### Court of Justice of the European Union

Ensures EU law is interpreted and applied in the same way in every EU country; ensures countries and EU institutions abide by EU law.



### European Central Bank

Manages the euro, keeps prices stable and conducts EU economic and monetary policy.

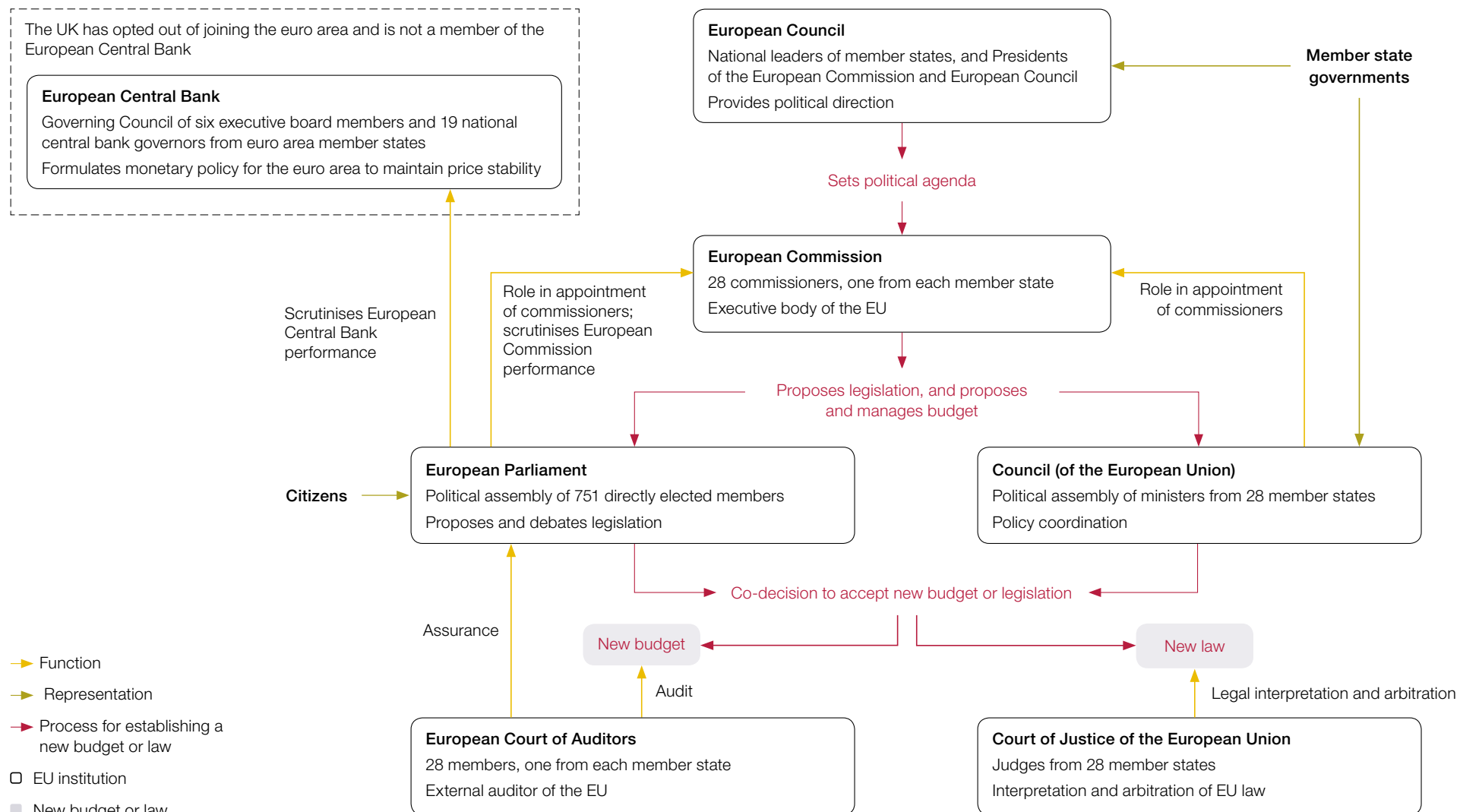
(The UK has opted out of joining the euro area, and is not a member of this institution).



### European Court of Auditors

Checks EU funds are collected and used correctly, and helps improve EU financial management.

# EU institutional framework, and responsibilities of the seven institutions



## Other EU organisations recognised by the treaties

In addition to seven institutions, the following are recognised by the treaties:

### European Investment Bank

The European Investment Bank Group consists of the European Investment Bank (EIB) and the European Investment Fund (EIF).

The EIB is the EU's bank: it is owned by, and represents the interests of, member states. As a multilateral borrower and lender, it provides finance and expertise for investment projects which contribute to furthering EU policy objectives. More than 90% of the EIB's activity is focused on Europe, but it also supports the EU's external and development policies.

The EIF is a provider of risk finance to benefit small- and medium-sized enterprises (SMEs) across Europe.

### EU agencies and joint undertakings

EU agencies and joint undertakings are created by EU legislation to undertake specific tasks and are active in a wide range of areas, such as safety, security, health, research, finance and migration. Each agency has its own mandate, board, director, staff and budget.

Joint undertakings are created to conduct research and promote technological development.

Agencies and joint undertakings are listed in [Appendix Three](#).

### UK withdrawal and future relationship with the EU

Some non-EU countries have access to EU agencies through agreements with the EU. For example, in 2014 Norway participated in 26 EU agencies.



## Financial obligations of member states

EU membership confers rights and responsibilities on member states, including financial obligations to contribute to annual budgets.<sup>1</sup>

### Multiannual financial framework, and annual budgets

Annual EU budgets are determined within the terms of seven-year agreements between member states known as multiannual financial frameworks (MFFs). MFFs are expressions of political priorities as well as providing a framework for financial planning and budgetary discipline. The current MFF runs from 2014 to 2020, and allows for:

- commitments of €960.0 billion; and
- payments of €909.6 billion.<sup>2, 3</sup>

The annual EU budget is agreed by the Council and European Parliament. In accordance with the principle of equilibrium, budget revenue and expenditure (payments) must be in balance. The budget is spent on farming and development of rural areas; regional economic development and improving employment opportunities; research; support to countries wishing to join the EU; and aid for neighbouring and developing countries.

### How member states contribute to the EU budget

The EU budget is financed almost exclusively through mechanisms relating to member states' gross national income (GNI) and value added tax (VAT). A standard percentage is levied on the:

- harmonised VAT base for each member state; and
- GNI of each member state.

Member states also collect sugar levies and customs duties on behalf of the EU. Member states' governments retain 20% of these to cover the cost of their collection, and pass 80% to the European Commission.

Approximately 75% of EU budget revenue comes from GNI-based contributions, while VAT-based resources and the sum of customs duties and sugar levies contribute just over 10% each respectively. The total amount these categories contribute to EU budget revenue cannot exceed 1.23% of the gross national income of the EU.

### Other revenue sources

Other sources, including fines on companies breaching EU competition law, also contribute to EU budget revenue.

### UK withdrawal and future relationship with the EU

The UK will continue to have financial obligations to the EU while it is a member state.

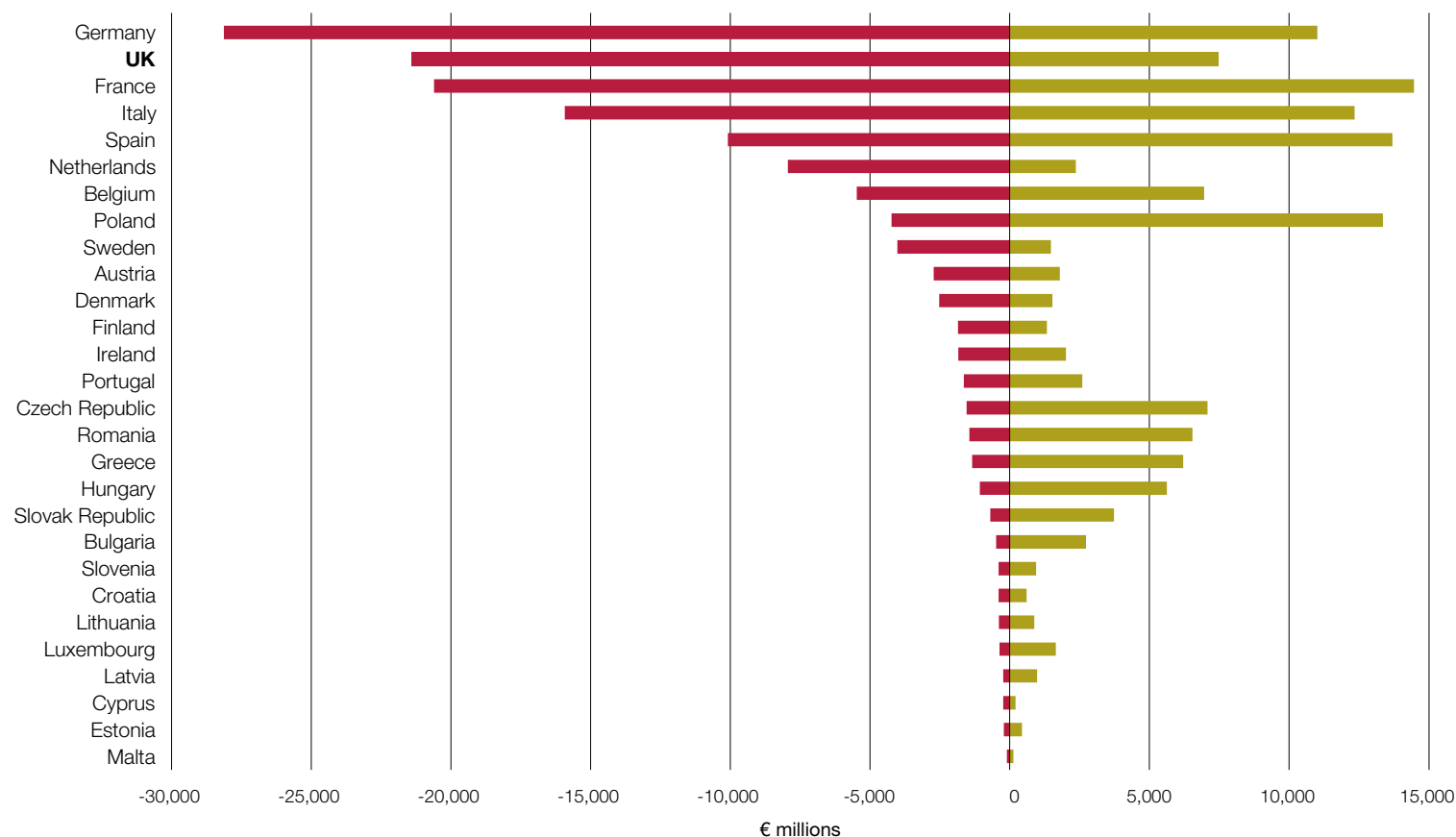
#### Notes

- <sup>1</sup> The 'Own Resources Decision' (ORD) lays down the provisions for financing annual EU budgets. The ORD must be ratified by all member states, and the UK Parliament has passed the European Union (Finance) Act 2015, to give effect to the current ORD.
- <sup>2</sup> The EU budgeting system is different from the budgeting system in the UK: the EU system operates with commitments and payments. **Commitments** (the full term is 'commitment appropriations') cover the total cost of legal obligations that could be signed in a given financial year. Legal obligations can be contracts, grant agreements and decisions. **Payments** (the full term is 'payment appropriations') cover expenditure due in the current year, arising from legal commitments entered into in the current year and/or earlier years. There can be a time lag before commitments become payments. The UK budgeting system operates on accruals or payments only.
- <sup>3</sup> Commitments and payments are given in 2011 prices, as this is when negotiations for the 2014 to 2020 MFF commenced. In 2016 the European Commission issued *Technical adjustment of the financial framework for 2017 in line with movements in GNI and adjustment of cohesion policy envelopes*. This adjustment provides an additional €1.2 billion of payment appropriations (an increase from €908.4 billion to €909.6 billion (in 2011 prices)).



## Member state contributions to the EU budget, and payments from the EU budget to member states, 2015

In 2015 the UK contribution represented 15.6% of all member states' contributions to the EU budget, second only to the contribution made by Germany. In the same period it received 5.7% of all payments from the EU budget to member states.



■ Member state contributions to the EU budget

■ Payments from the EU budget to member states

### Note

Data in this graphic represent member state contributions to the EU budget, and payments from the EU budget to member states (**public and private sectors**), in 2015. The bar representing the UK contribution therefore takes the UK rebate (or abatement) into account. For more information on how the UK contribution to the EU budget is calculated, see [Appendix Four](#).

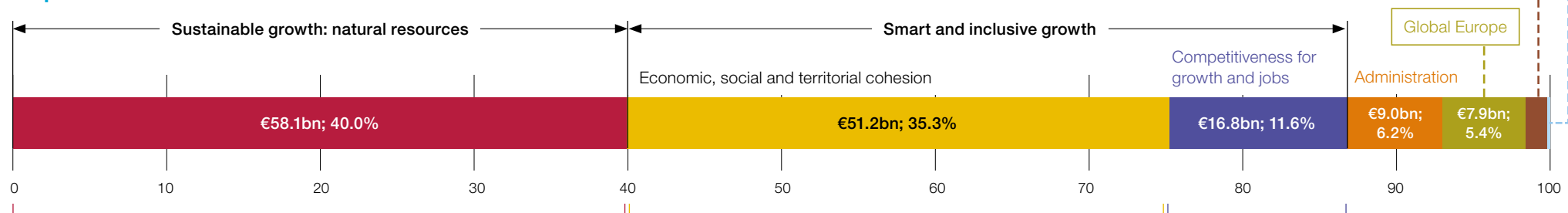
Source: European Commission



# EU budget payments and EU priorities

The EU budget made payments of €145.2 billion in 2015 in support of its priorities

## EU priorities



**87% of 2015 EU budget payments supported these three objectives**

Supports rural development and environmental measures

Supports regional policy intended to help the least developed EU countries and regions catch up with others, encouraging competitiveness and inter-regional cooperation

Supports research and innovation; education and training; trans-European energy, telecommunications and energy networks; social policy; enterprise development

## EU objectives supported by the following principal funds

### Fund

European Agricultural Guarantee Fund  
European Agricultural Fund for Rural Development  
European Maritime and Fisheries Fund

### Fund

European Regional Development Fund  
Cohesion Fund  
European Social Fund  
Youth Employment Initiative

### Fund

Horizon 2020

### Notes

- 1 With the exception of the European Agricultural Guarantee Fund and Horizon 2020, these funds are known as European Structural and Investment Funds.
- 2 Horizon 2020 funding (grants promoting research and innovation) is secured by public and private organisations through competitions.

- 3 Some EU budget payments made in 2015 reflect funding associated with the 2007 to 2013 MFF, paid after 2013 under rules that allow outstanding commitments to be used up to two years after the end of this MFF.
- 4 Figures may not sum exactly due to rounding.

Source: European Commission

## EU policy areas, funds and objectives

In 2015 two EU policy areas accounted for nearly 87% of EU budget payments.

Nearly 80% of EU budget spending was managed in partnership between the European Commission and member states.

Most EU funds must be co-financed by the beneficiary. EAGF is not co-financed.



EU policy area	Fund	Shortened to	Objective or purpose
1 Smart and inclusive growth (€68.0 billion; 46.9%)	European Regional Development Fund	ERDF	Strengthens economic and social cohesion in the EU by correcting imbalances between its regions
	European Social Fund	ESF	Improves employment and education opportunities across the EU, and improves the situation of the most vulnerable at risk of poverty
	Cohesion Fund	CF	Reduces economic and social disparities and promotes sustainable development
	Youth Employment Initiative	YEI	Provides extra support to young people under 25 living in regions where youth unemployment was more than 25% in 2012
	Horizon 2020	–	Provides funding for research and development projects
2 Sustainable growth: natural resources (€58.1 billion; 40.0%)	European Agricultural Guarantee Fund	EAGF	Finances direct payments to farmers, and finances measures to regulate agricultural markets
	European Agricultural Fund for Rural Development	EAFRD	Helps rural areas meet economic, environmental and social challenges: sustainability of rural communities, environmental protection and food security
	European Maritime and Fisheries Fund	EMFF	Ensures fishing and aquaculture are environmentally, economically and socially sustainable

### Note

- European Structural and Investment Funds resources are allocated among the member states in accordance with a formula which takes into account population (and its density), regional prosperity, unemployment and levels of education; it is negotiated by member states at the same time as the MFF for a given period. Horizon 2020 is distributed through open competitions. EAGF direct payments funding is calculated using historical data of land in agricultural use across each member state.

## Other sources of EU revenue and other EU payments

### Other sources of EU revenue

Some non-EU countries – including Norway, Switzerland, Iceland and Liechtenstein – also contribute to the EU. For example, the website of the Mission of Norway to the European Union indicates that in 2014 Norway contributed €306 million, and forecasts this to rise to €550 million by 2020.

### EU activities not associated with the EU budget

Member states make contributions, and the EU makes payments, for activities not associated with the EU budget. For example:

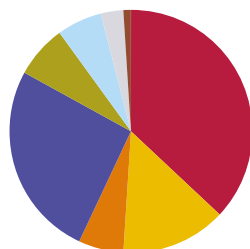
- Member states capitalise the European Investment Bank, and resource the European Development Fund (the EU's main instrument for providing international development aid).
- The European Investment Bank invests in both member states and non-EU countries. The European Development Fund makes payments to non-EU countries.



# EU assets and liabilities as at 31 December 2015

## EU assets

Total assets on balance sheet  
**€154 billion**



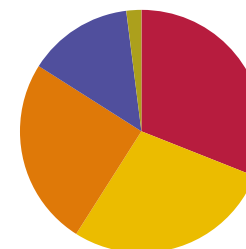
Loans	<b>€57 billion:</b> assets with fixed or determinable payments receivable. For example, loans granted to member states in financial difficulty
Cash and cash equivalents	<b>€22 billion</b> held on short-term deposit
Available for sale financial assets	<b>€9 billion:</b> primarily investments
Pre-financing	<b>€40 billion:</b> cash advances to enable specific projects to commence
Receivables and recoverables	<b>€11 billion</b> payable by third parties to the EU
Property, plant and equipment	<b>€9 billion:</b> land, buildings, and other physical assets used by the EU
Other advances to member states	<b>€5 billion</b>
Other	<b>€2 billion</b>

## Financial statements also record

Contingent assets €0.5 billion

## EU liabilities

Total liabilities on balance sheet  
**€226 billion**



Accrued charges and deferred income	<b>€70 billion</b> payable to third parties: no invoice has been received but the EU has benefited from a good or service
Pensions and other employee benefits	<b>€63 billion</b>
Borrowings	<b>€57 billion</b> of loans taken by the EU with credit institutions
Payables	<b>€32 billion</b> invoiced by third parties but not yet settled
Other liabilities	<b>€5 billion</b>

## Notes

- The notes to the EU's consolidated financial statements include 'outstanding budgetary commitments not yet expensed' of €177.5 billion. The notes also record other 'significant legal commitments' of €376.3 billion, most of which reflects the fact that the 2014 to 2020 MFF has just started.
- The EU's consolidated financial statements are prepared on an accruals basis, and therefore expenditure and liabilities are only recognised when there is little or no realistic alternative to making a payment. Funding for commitments would be met from future annual EU budgets.
- Contingent assets and contingent liabilities are not recognised but are disclosed in the EU's consolidated financial statements. This is because the likelihood of contingent assets or liabilities arising has been deemed as improbable, or because the existence of the assets or liabilities will only be confirmed by a future event outside the EU's control, or where the amount cannot be reliably measured.
- The European Commission prepares its *consolidated annual accounts of the European Union 2015* in accordance with International Public Sector Accounting Standards (IPSAS).
- Figures may not sum exactly due to rounding.

Source: [European Commission](#)

Contingent liabilities €27.6 billion

# UK contributions to the EU

UK contributions to the EU budget form the majority of its costs associated with membership of the EU.

## Financial costs to the UK associated with its membership of the EU<sup>1</sup>

### UK contribution to the EU budget<sup>2</sup>

Like all member states, the UK makes contributions to the EU budget based on mechanisms relating to member states' gross national income (GNI) and value added tax (VAT). A standard percentage is levied on the:

- harmonised VAT base for each member state; and
- GNI of each member state.

Member states also collect sugar levies and customs duties on behalf of the EU. In common with all member states, the UK retains a percentage of the amount of sugar levies and customs duties it collects to cover the costs of collection.<sup>3</sup>

The UK receives a rebate (or abatement) on its contribution through a mechanism designed to correct contributions by certain member states deemed excessive as compared to their national wealth. The cost of the UK rebate is divided among the other EU member states.

**HM Treasury recorded the UK gross contribution to the EU budget in 2015-16 as £13.6 billion.** This gross contribution figure **does not take account** of payments to the UK public sector from the EU budget, or funds secured by public or private organisations through competitions<sup>4</sup> (see [Appendix Four](#) for further details of how the UK gross contribution to the EU budget is calculated).

**HM Treasury recorded the UK net contribution to the EU budget in 2015-16 as £10.8 billion.** This net contribution figure **takes account** of payments to the UK public sector from the EU budget, but **does not include** funds secured by public or private organisations through competitions.

### Other costs

The UK contributes to:

- organisations/initiatives founded by the treaties but not funded by the EU budget (European Investment Bank,<sup>5</sup> European Development Fund);<sup>6</sup>
- some salaries and allowances, and pensions associated with UK representation in the EU (UK members of the European Parliament);<sup>7</sup> and
- European Parliamentary processes taking place in the UK (elections).<sup>8</sup>

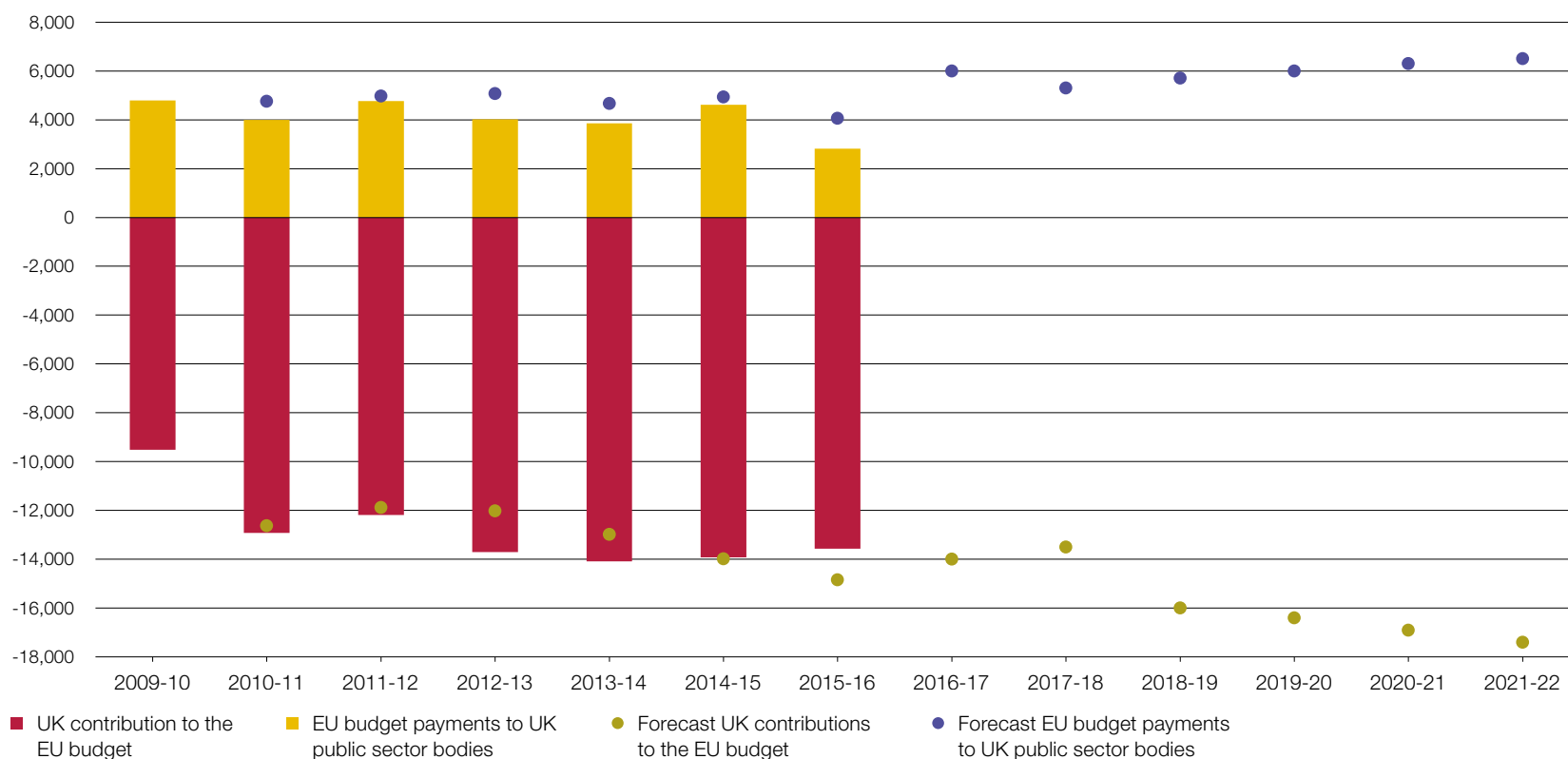


### Notes

- <sup>1</sup> The *Consolidated Fund Account 2015-16* notes a number of remote contingent liabilities relating to the UK's membership of the EU (see [Appendix Five](#)).
- <sup>2</sup> The 'Own Resources Decision' (ORD) lays down the provisions for financing annual EU budgets. The ORD must be ratified by all member states, and the UK Parliament has passed the European Union (Finance) Act 2015, to give effect to the current ORD.
- <sup>3</sup> On 24 May 2014 the Council of the European Union decided that the percentage retained by member states would decrease from 25% to 20%. This decision came into force on 1 October 2016, and applied retroactively from 1 January 2014.
- <sup>4</sup> Contribution figures are based on the UK financial year (1 April to 31 March) not the EU financial year (1 January to 31 December).
- <sup>5</sup> The UK has a 16% equity investment in the European Investment Bank, valued at £8.1 billion in March 2016.
- <sup>6</sup> The UK is due to contribute €4.5 billion to the European Development Fund between 2014 and 2020.
- <sup>7</sup> In 2005, the European Parliament decided that from the first day of the new Parliamentary term in 2009, MEPs would receive their salary, transitional allowance or pension from the EU budget rather than their member state. However, MEPs who held a mandate before the 2009 elections could opt to retain their previous arrangements. UK MEP salaries and allowances, and pensions cost £2.4 million in 2015-16.
- <sup>8</sup> European Parliament elections in 2014 cost £0.7 million.

## UK contributions to EU budgets and EU budget payments to UK public sector bodies, 2009-10 to 2021-22 (historic and forecast)

£ millions



### Notes

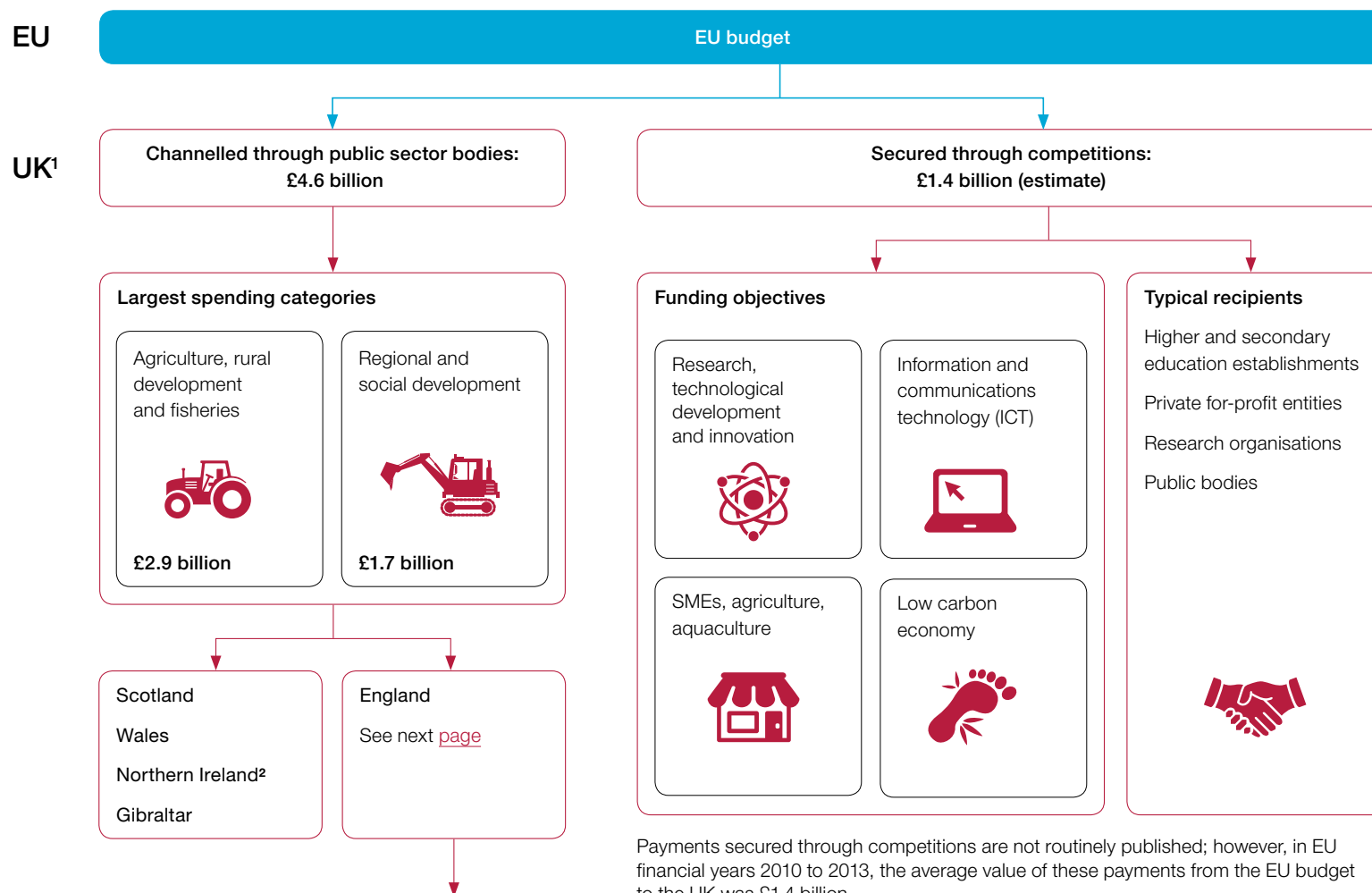
- 1 The Office for Budget Responsibility (OBR) publishes an annual *Forecast Evaluation Report*, which examines how forecasts compare to subsequent actual data, and identifies lessons for future forecasts.
- 2 OBR forecasts for 2016-17 to 2021-22 are expressed on a "no-referendum" counterfactual basis."
- 3 Forecasts for 2010-11 to 2015-16 are in-year OBR forecasts produced in autumn *Economic and fiscal outlooks*, as reported in HM Treasury's annual *European Union Finances* publication.
- 4 Data in this figure take the UK rebate (or abatement) into account. For more information on how the UK contribution to the EU budget is calculated, see [Appendix Four](#).
- 5 Payments and forecast payments from the EU budget to the UK exclude private sector receipts not administered by UK government bodies.
- 6 Volatility in UK contributions to the EU budget from year to year can result from the nature of the 'System of own resources' (provisions for financing EU budgets), and fluctuations in the UK rebate and exchange rates.

Source: HM Treasury and Office for Budget Responsibility (forecasts)

	UK contributions to the EU budget (£bn)			EU budget payments to UK public sector bodies (£bn)		
	Forecast	Actual	Difference	Forecast	Actual	Difference
2010-11 to 2015-16	78.3	80.4	2.0	28.4	24.1	4.4
			(forecast is 3% lower than actual)			(forecast is 15% higher than actual)
2016-17 to 2021-22	94.2	–	–	35.8	–	–

# Payments to the UK from the EU budget, 2014-15

Payments from the EU budget to the UK are channelled through public sector bodies, or secured by public or private organisations through competitions.



## Notes

- 1 In accordance with the devolution settlement, relations with the EU are the responsibility of the Parliament and government of the UK, as a member state. The proper administration of EU funds in Scotland, Wales, Northern Ireland, and Gibraltar is a matter for the relevant authority.
- 2 EU funding to Northern Ireland includes funds in respect of the EU PEACE programme to support peace and reconciliation, and to promote economic and social progress in Northern Ireland and the Border Region of Ireland.

Payments secured through competitions are not routinely published; however, in EU financial years 2010 to 2013, the average value of these payments from the EU budget to the UK was £1.4 billion.



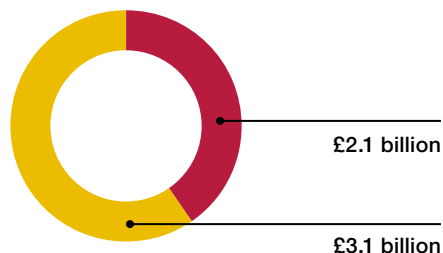
## Payments from the EU budget channelled through public sector bodies in England, 2014-15

Continued from previous page

### Department for Environment, Food & Rural Affairs (Defra)

£6.3 billion<sup>1</sup>

Total departmental expenditure



■ European Agricultural Guarantee Fund (EAGF): £1.6 billion  
European Agricultural Fund for Rural Development (EAFRD): £0.5 billion  
**Total £2.1 billion<sup>2</sup>**

EU budget payments in England funded 40% of total departmental expenditure in England of £5.2 billion. Total departmental expenditure of £6.3 billion also includes £1.1 billion channelled through Defra (see note 1).

- Funding from the EU spent in England
- Funding from the Exchequer

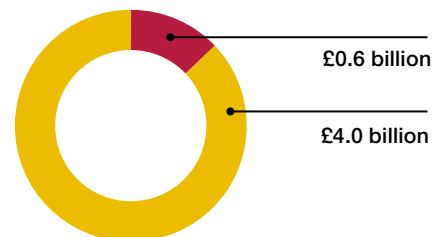
#### Notes

- 1 £1.1 billion of EAGF and EAFRD is channelled through Defra to the devolved administrations of Scotland, Wales and Northern Ireland, and the Forestry Commissions of Scotland and Wales. When this £1.1 billion is added to funding from the EU spent in England (£2.1 billion) and funding from the Exchequer (£3.1 billion), total departmental expenditure equals £6.3 billion.
- 2 The total of £2.1 billion funding from the EU spent in England also reflects European Fisheries Fund payments of £6.5 million made by the Marine Management Organisation.

### Department for Communities and Local Government (DCLG)

£4.6 billion

Total departmental expenditure



■ European Regional Development Fund (ERDF): £0.6 billion

EU budget payments funded 13% of total departmental expenditure of £4.6 billion (excluding funding to local authorities).

### Department for Work & Pensions (DWP)

£175 billion

Total departmental expenditure

■ European Social Fund (ESF): £0.3 billion

EU budget payments funded 0.2% of total departmental expenditure of £175 billion.

## Total EU budget allocations to be channelled through UK public sector bodies, 2014 to 2020

The UK public sector is allocated nearly €41.5 billion from the EU budget between 2014 and 2020.<sup>1,2</sup>

	England (€m)	Scotland (€m)	Wales (€m)	Northern Ireland (€m)
European Agricultural Guarantee Fund (EAGF)	16,421	4,096	2,245	2,299
European Regional Development Fund (ERDF)	3,628	477	1,407	308
European Agricultural Fund for Rural Development (EAFRD)	3,460	845	652	227
European Social Fund (ESF)	3,309	418	1,006	205
Youth Employment Initiative (YEI)	160	46	—	—
European Maritime and Fisheries Fund (EMFF)	97	108	15	24
<b>Regional totals</b>	<b>27,075</b>	<b>5,989</b>	<b>5,325</b>	<b>3,063</b>
<b>UK total</b>	<b>41,463</b>			

### Notes

- Gibraltar will receive €6 million in respect of ERDF, and €5 million in respect of ESF between 2014 and 2020. Although Gibraltar does not have a column, the €11 million it will receive is included in the UK total.
- EU funding to Northern Ireland includes funds in respect of the EU PEACE programme to support peace and reconciliation, and to promote economic and social progress in Northern Ireland and the Border Region of Ireland. Between 2014 and 2020 the PEACE IV programme has a budget of €270 million. The European Regional Development Fund contribution to this is approximately €229 million, with the remaining €41 million coming from match funding (non-EU sources which may include national, regional and local government funding).
- On 13 August and 3 October 2016 the Chancellor of the Exchequer and HM Treasury made announcements relating to British projects reliant on EU funding. These announcements covered projects funded by structural and investment funding: European Agricultural Fund for Rural Development, European Social Fund, European Maritime and Fisheries Fund and the European Regional Development Fund. They also covered funding for projects secured through competitions, and funding for Pillar 1 of Common Agricultural Policy (EAGF) until 2020.
- In 2016 the European Commission issued *Technical adjustment of the financial framework for 2017 in line with movements in GNI and adjustment of cohesion policy envelopes*. This adjustment provided an additional €50 million (in 2011 prices) for allocations in 2017 to 2020. The table does not reflect this adjustment.
- Figures may not sum exactly due to rounding.

Source: Department for Environment, Food & Rural Affairs, Department for Communities and Local Government, Department for Work & Pensions, and the devolved administrations for Scotland, Wales, Northern Ireland and Gibraltar

## Closing multiannual EU programmes

Member states agree with the European Commission (the Commission) a programme of how they will spend funds allocated to them over the period of a multiannual financial framework (MFF). At the end of the programming period,<sup>1</sup> programmes must be concluded. The process of closing programmes under existing arrangements can take years.

### Administrative closure

- Eligibility of programme expenditure is verified before the Commission authorises final payments.
- Various reports must be submitted to the Commission, including:
  - implementation reports on programme performance against targets; and
  - audit reports including an opinion covering programme expenditure.

### Member states' capacity to absorb funds

Member states have found it challenging to spend funds within the allotted timeframe. This could be due to member states' institutional capacity constraints, because projects take time to implement, or because co-financing from a member state is not available. Although 90% of payments to member states in respect of the 2007 to 2013 period had been made by the end of 2015, more than €45 billion remained unspent.

### Closing programmes in England

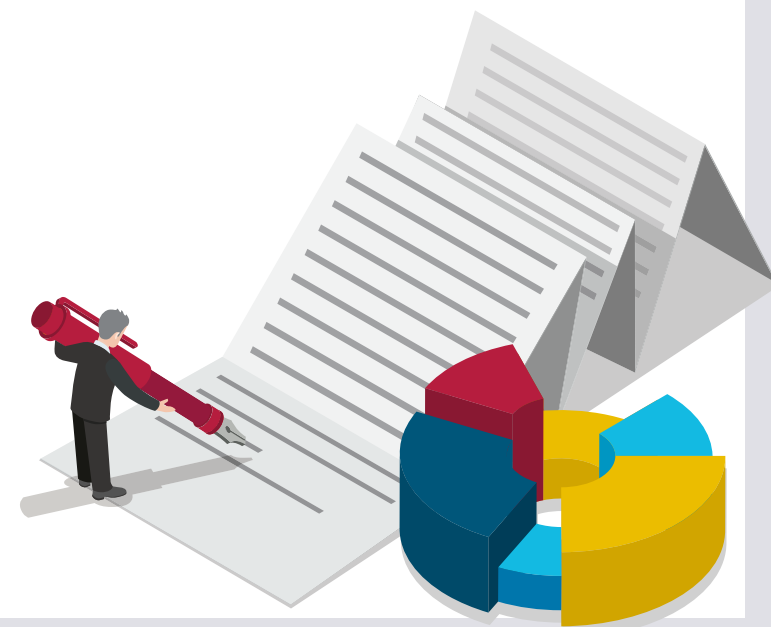
The Department for Communities and Local Government is currently managing two European Regional Development Fund programmes covering two programming periods: 2007 to 2013, and 2014 to 2020. Closure of the 2000 to 2006 programme was completed during 2015-16. The Department forecasts submission of 2007 to 2013 closure documents to the Commission by the end of March 2017.

Similarly, the Department for Work & Pensions is currently managing two European Social Fund programmes: 2007 to 2013, and 2014 to 2020. The Department expects to make its final claim to the Commission in respect of the 2007 to 2013 programme by the end of March 2017.

The Rural Payments Agency has responsibility for making direct aid (European Agricultural Guarantee Fund) and rural development (European Agricultural Fund for Rural Development (EAFRD)) payments to farmers in England. It closed 2007 to 2013 EAFRD programmes during 2015-16.

#### Note

- <sup>1</sup> Under normal circumstances programming periods can be extended if funds remain unspent. For the 2007 to 2013 MFF, the programming period can be extended by two years to 2015.



# Loans from the EU to the UK public and private sectors (finance not associated with the EU budget)

## European Investment Bank Group

### European Investment Bank

In its 2015 financial report, the European Investment Bank (EIB) identified granted loans worth €48.2 billion to the UK.

In 2015 it loaned €77.5 billion in total, investing €7.8 billion in the UK. Of this €7.8 billion, €5.2 billion (67%) went to the energy, transport and water sectors. In 2016 so far, the EIB has signed in the UK 33 finance contracts totalling more than €6 billion, including €887 million for the Thames Tideway Tunnel.

The EIB also made investments in 2015 through the European Fund for Strategic Investment (EFSI). UK projects received €972 million, one-third of all EFSI lending in 2015.

### European Investment Fund

In 2015 the European Investment Fund (EIF) supported UK small and medium-sized enterprises with €944 million, consisting of:

- €656 million of equity;
- €280 million of guarantees and securities; and
- €8 million of microfinance.



# EU budget management, control and audit arrangements

The EU budget is managed:

- directly by the European Commission (the Commission) and other EU institutions;
- indirectly by other international organisations or third countries; or
- implementation is shared between the Commission and member states (nearly 80% of the EU budget is spent in this category).

## Management and control arrangements in member states

Member states distribute funds and manage expenditure in line with EU law; however, the Commission retains ultimate accountability for the implementation of the EU budget. Member states have a responsibility to protect the EU's financial interests, including detecting irregular transactions.

The arrangements for overseeing the management of funds are complex. EU regulations governing these funds require member states to designate:

- **managing authorities** to produce an operational programme, prioritising activities, and providing, managing, assessing and reporting on the use of funds (including in respect of European Regional Development Fund, European Social Fund, Youth Employment Initiative, European Agricultural Fund for Rural Development, and European Maritime and Fisheries Fund);

- **certifying authorities** to seek assurance in respect of the eligibility of payments provided by managing authorities, and to generate and submit certified statements of expenditure to the Commission (including in respect of European Regional Development Fund, European Social Fund, and European Maritime and Fisheries Fund);
- **audit authorities** to seek assurance over the systems and operations of managing and certifying authorities, and report to the Commission;
- **paying agencies** to distribute European Agricultural Guarantee Fund and European Agricultural Fund for Rural Development; and
- **certification bodies** to seek assurance over paying agencies' management, monitoring and control systems, and report to the Commission.

## EU external audit, and EU budget 'discharge'

The European Court of Auditors (ECA) is the institution established by treaty to carry out the audit of EU finances. The ECA publishes an annual report on the implementation of the EU budget, and special reports on various budget activities. In addition, the ECA also issues opinions on regulations

relating to the EU budget and landscape reviews of policy and risks to the budget. It reports to the European Parliament.

The ECA has reported:

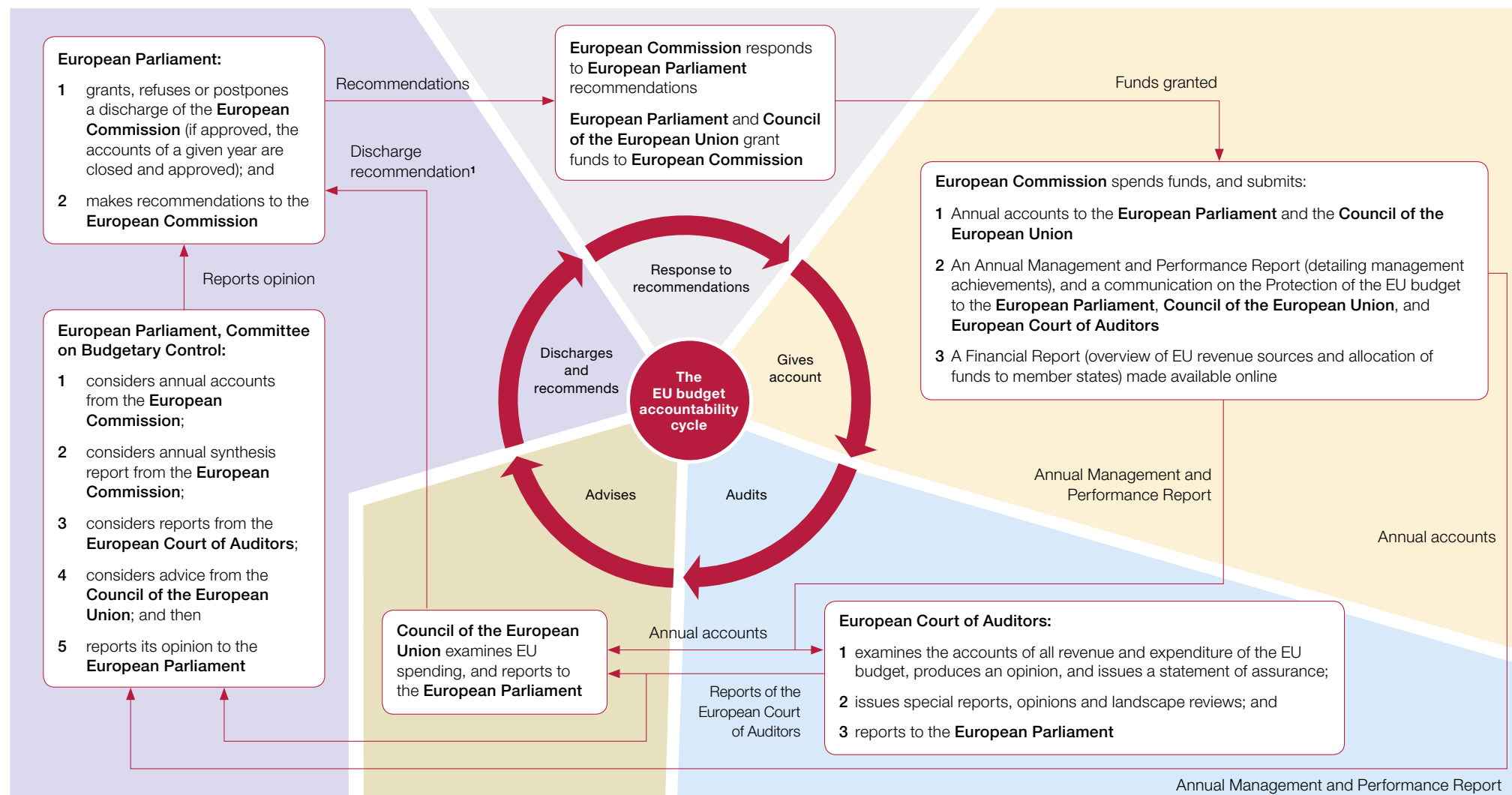
- a true and fair opinion on the financial statements of the implementation of the EU budget each year since 2007;
- that revenue has been legal and regular since 1999; and
- an adverse opinion on the legality and regularity of EU budget payments each year since 1994.

The annual budget is closed when the European Parliament 'discharges' the Commission for its responsibility for the fiscal year in question. The Council of the European Union makes a discharge recommendation to the European Parliament, which is the opportunity for member states to express their views on the implementation of the budget. However, only the European Parliament has the authority to grant, refuse or postpone discharge. Since 2010 the UK has submitted a statement advising against discharge.

Other EU activities not associated with the EU budget have other external audit arrangements. For example, the EIB is audited by a private sector firm.



## EU budget accountability cycle



### Note

<sup>1</sup> Since 2010 the UK has submitted a statement advising against discharge, due to the European Court of Auditors adverse opinion on the legality and regularity of payments.

## Data challenges

The basis and content of UK government public reporting of EU funds to the UK differ between funds. For example, some information is based on the EU agricultural financial year (16 October to 15 October), some on the EU financial year (1 January to 31 December), and some on the UK financial year (1 April to 31 March).

In addition, some data are only publicly available as allocations over a longer time period, such as payments to Local Enterprise Partnerships over the seven years of the multiannual financial framework, and some are produced annually. Differences in the financial years and how fund dispersion is determined by the EU and UK authorities make interpreting and comparing UK and EU data challenging.



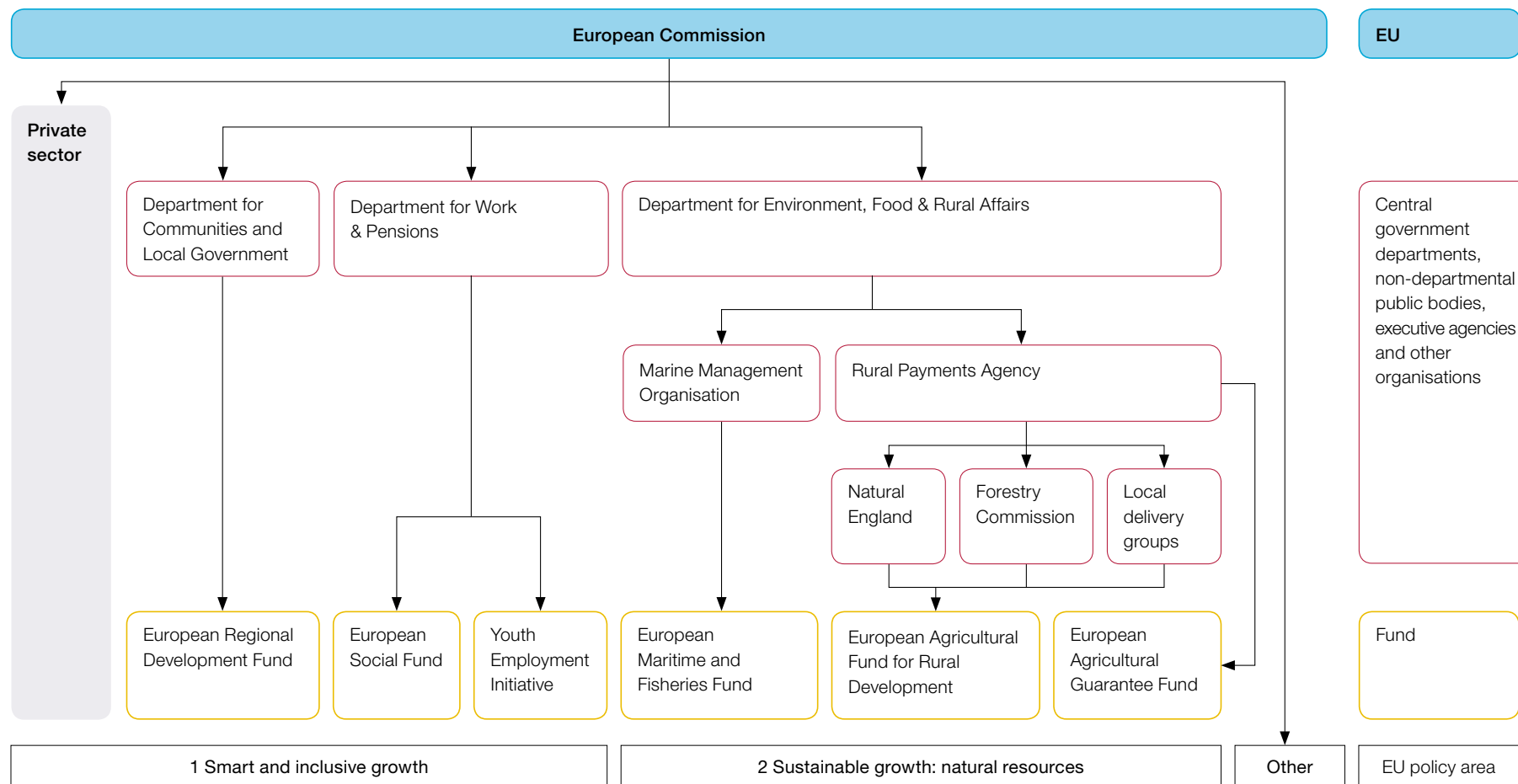


How EU budget payments to the UK are distributed in England

Regional distribution of EU budget funding in the UK

Research and innovation funding in the UK, 2007 to present

## How EU budget payments to the UK are distributed in England



### Notes

- 1 In accordance with the devolution settlement, relations with the EU are the responsibility of the Parliament and government of the UK, as a member state. The proper administration of EU funds in Scotland, Wales, Northern Ireland, and Gibraltar is a matter for the relevant authority.
- 2 'Other' includes payments in respect of EU policy areas 3 'Security and citizenship', and 5 'Administration'.

How EU budget payments to the UK are distributed in England

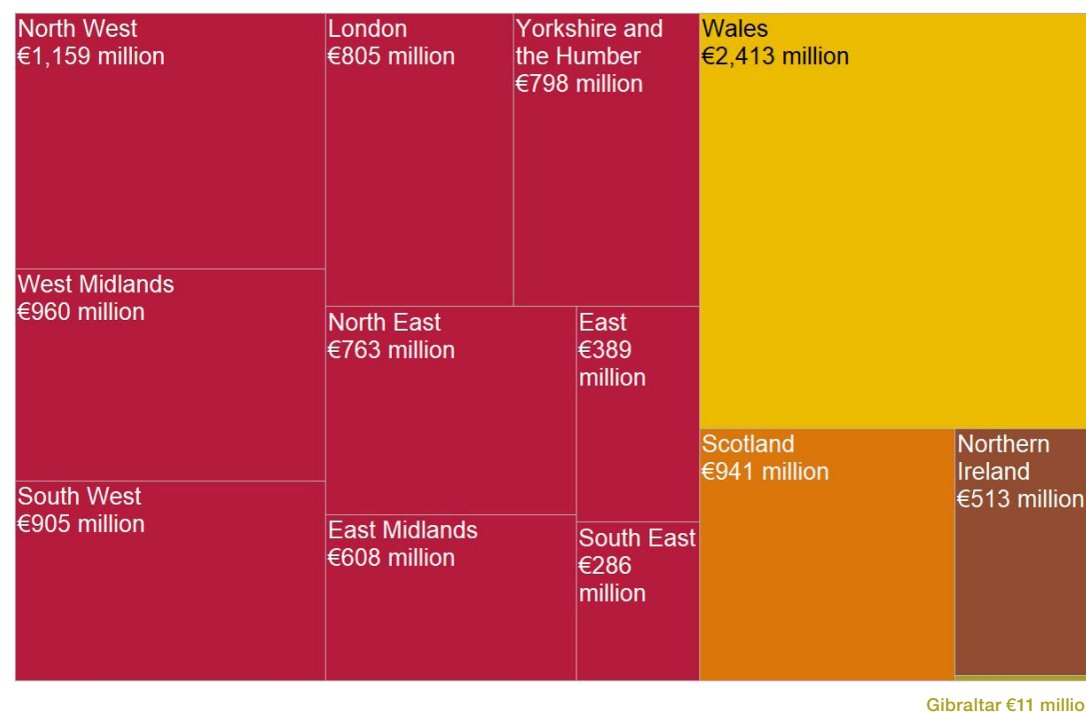
Regional distribution of EU budget funding in the UK

Research and innovation funding in the UK, 2007 to present

## European Regional Development Fund, European Social Fund, and Youth Employment Initiative<sup>1</sup> allocations, 2014 to 2020

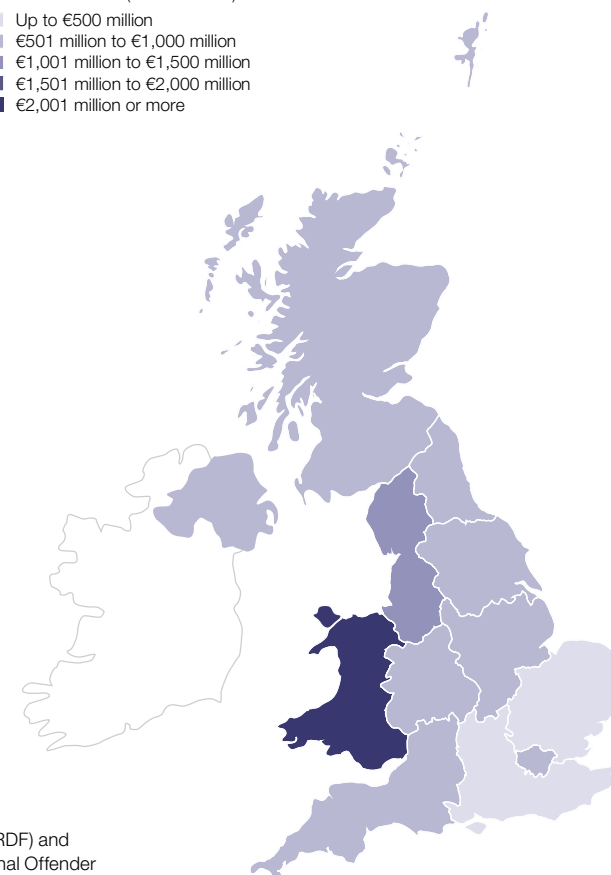
**Total for UK: €11.0 billion**

**Total for England: €7.1 billion<sup>2</sup>**



European Regional Development Fund, European Social Fund and Youth Employment Initiative allocations (2014 to 2020)

Up to €500 million  
 €501 million to €1,000 million  
 €1,001 million to €1,500 million  
 €1,501 million to €2,000 million  
 €2,001 million or more



### Notes

- Only England and Scotland will receive Youth Employment Initiative funding in the current multiannual financial framework (2014 to 2020).
- On 17 April 2014 the Secretary of State for Business, Innovation and Skills identified €6.9 billion of European Regional Development Fund (ERDF) and European Social Fund (ESF) allocations to Local Enterprise Partnerships in England for 2014 to 2020 (€425 million was retained for the National Offender Management Service). A Parliamentary Question response on 18 April 2016 split this €6.9 billion allocation by Government Office Region, stressing '...that some Local Enterprise Partnership areas cross the boundaries of regions and therefore the actual spend pattern may not wholly reflect the above notional allocations'. For regional consistency between this slide and the next, the Government Office Region data are used. The total for England of €7.1 billion comprises €6.9 billion ERDF and ESF funding, and €0.2 billion Youth Employment Initiative (YEI) funding.
- All numbers on this page are calculated on the basis of available data, which for ERDF and ESF are rounded whereas YEI data are not.

How EU budget payments to the UK are distributed in England

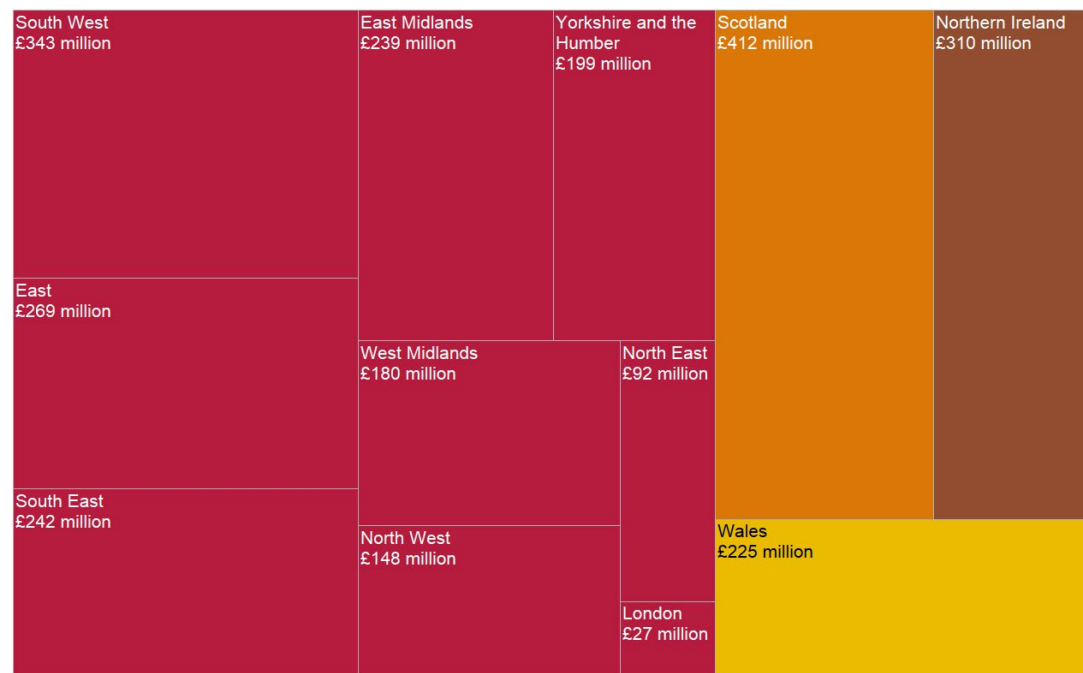
Regional distribution of EU budget funding in the UK

Research and innovation funding in the UK, 2007 to present

## European Agricultural Guarantee Fund payments, 2014-15

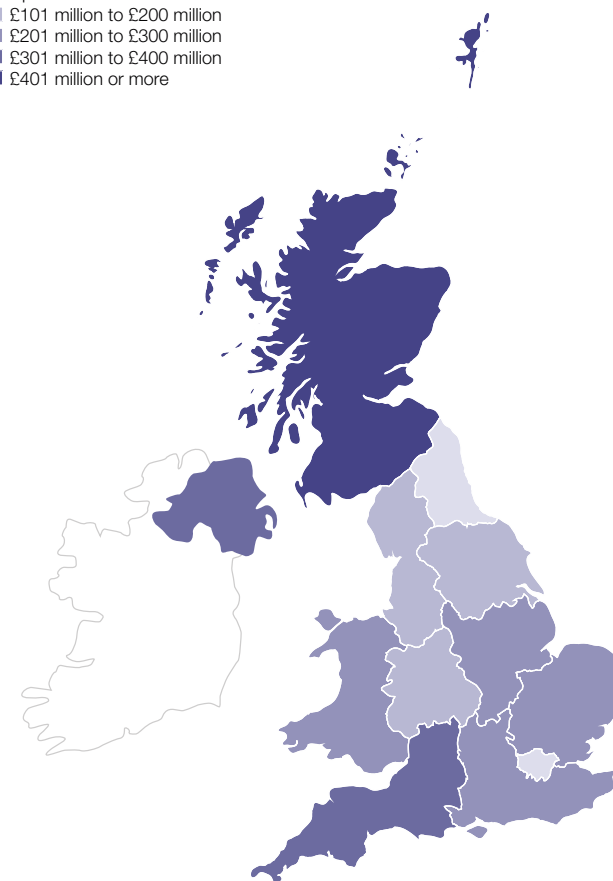
**Total for UK: £2.7 billion**

**Total for England: £1.7 billion**



European Agricultural Guarantee Fund payments (2014-15)

Up to £100 million  
 £101 million to £200 million  
 £201 million to £300 million  
 £301 million to £400 million  
 £401 million or more



### Notes

- 1 Gibraltar did not receive any European Agricultural Guarantee Fund payments in 2014-15.
- 2 Figures may not sum exactly due to rounding.

How EU budget payments to the UK are distributed in England

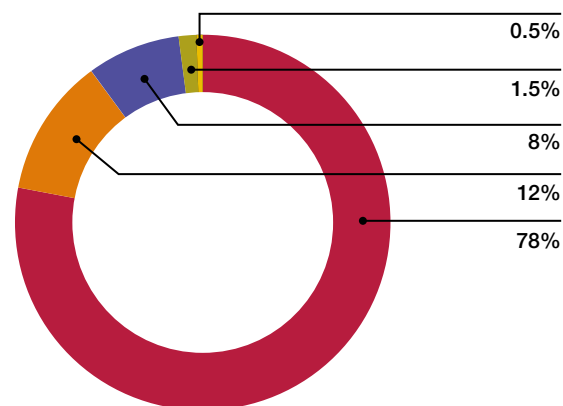
Regional distribution of EU budget funding in the UK

Research and innovation funding in the UK, 2007 to present

## UK public and private organisations have secured EU grants through competitions

Since 2007 the UK has secured nearly €9 billion in EU budget payments (competitive grants), winning 13% of those available.

### Between 2007 and 2013



More than 40% of all grants secured in the UK went to London, Cambridgeshire, Oxfordshire, Edinburgh, Manchester, Swindon, Birmingham, Surrey and Sheffield.

### Value of grants

more than  
€6.7 billion



more than  
€2.0 billion

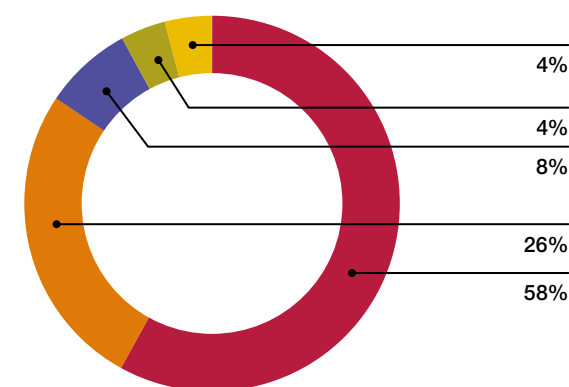


### Number of grant recipients

15,753

4,793

### Since 2014<sup>1</sup>



■ Higher or secondary education establishments ■ Private for-profit entities ■ Research organisations ■ Public bodies ■ Other

#### Note

<sup>1</sup> On 13 August and 3 October 2016 the Chancellor of the Exchequer and HM Treasury made announcements relating to British projects reliant on EU funding. These announcements covered projects funded by structural and investment funding: European Agricultural Fund for Rural Development, European Social Fund, European Maritime and Fisheries Fund and the European Regional Development Fund. They also covered funding for projects secured through competitions, and funding for Pillar 1 of Common Agricultural Policy (European Agricultural Guarantee Fund) until 2020.

## EU agencies and joint undertakings

### Decentralised agencies

Agency for the Cooperation of  
Energy Regulators

The Office of the Body of European Regulators  
for Electronic Communications

Community Plant Variety Office

European Agency for Safety and Health at Work

European Border and Coast Guard Agency

European Agency for the operational  
management of large-scale IT systems in the  
area of freedom, security and justice

European Asylum Support Office

European Aviation Safety Agency

European Banking Authority ★

European Centre for Disease Prevention  
and Control

European Centre for the Development of  
Vocational Training

European Chemicals Agency

European Environment Agency

European Fisheries Control Agency

European Food Safety Authority

European Foundation for the Improvement  
of Living and Working Conditions

European Global Navigation Satellite  
Systems Agency

European Institute for Gender Equality

European Insurance and Occupational  
Pensions Authority

European Maritime Safety Agency

European Medicines Agency ★

European Monitoring Centre for Drugs  
and Drug Addiction

European Union Agency for Network and  
Information Security

European Union Agency for Law  
Enforcement Training

European Police Office (EUROPOL)

European Public Prosecutor's Office  
(in preparation)

European Union Agency for Railways

European Securities and Markets Authority

European Training Foundation

European Union Agency for Fundamental Rights

European Union Intellectual Property Office

Single Resolution Board

The European Union's Judicial Cooperation Unit

Translation Centre for the Bodies of the  
European Union

### Agencies under Common Security and Defence Policy

European Defence Agency

European Union Institute for Security Studies

European Union Satellite Centre

### Executive agencies

Education, Audiovisual and Culture  
Executive Agency

Executive Agency for Small and  
Medium-sized Enterprises

European Research Council Executive Agency

Consumers, Health, Agriculture and Food  
Executive Agency

Research Executive Agency

Innovation & Networks Executive Agency

### EURATOM agencies and bodies

EURATOM Supply Agency

European Joint Undertaking for ITER  
and the Development of Fusion Energy  
(Fusion for Energy)

### Joint undertakings

European Institute of Innovation and Technology

Bio-based Industries

Electronic Components and Systems for  
European Leadership

Fuel Cells and Hydrogen 2

Innovative Medicines Initiative 2

Single European Sky Air Traffic  
Management Research

Shift2Rail

Clean Sky 2

### Note

★ Agencies located in the UK (London).

## Calculating the UK gross contribution to the EU budget in 2015-16 (taking into consideration monies collected by the UK on behalf of the EU)

The UK makes contributions to the EU budget based on mechanisms relating to member states' gross national income (GNI) and value added tax (VAT). A standard percentage is levied on the:

- harmonised VAT base for each member state; and
- GNI of each member state.

Member states also collect sugar levies and customs duties on behalf of the EU. In common with all member states, the UK retains a percentage of the amount of sugar levies and customs duties it collects to cover the costs of collection.<sup>2,3</sup>

The UK receives a rebate (or abatement) on its contribution through a mechanism designed to correct contributions by certain member states deemed excessive as compared to their national wealth. The cost of the UK rebate is divided among the other EU member states.<sup>4</sup>

### Components

VAT-based contribution  
**£2.8 billion**

**A**

GNI-based contribution  
**£12.6 billion**

**B**

Customs duties  
and sugar levies  
**£3.1 billion**

**D**

### Deductions

Rebate  
**£4.1 billion**

**C**

Cost of collecting duties  
and levies  
**£0.8 billion**

**E**

### Total

**£13.6 billion**

**F**

$$(A + B - C) + (D - E) = F$$

### Notes

- Appendix Four figures are based on the UK financial year (1 April to 31 March), not the EU financial year (1 January to 31 December). This contribution calculation does not include payments from the EU budget to the UK channelled through public sector bodies, or secured by public or private organisations through competitions.
- The 'Own Resources Decision' (ORD) lays down the provisions for financing annual EU budgets. The ORD must be ratified by all member states, and the UK Parliament has passed the European Union (Finance) Act 2015, to give effect to the current ORD.
- On 24 May 2014 the Council of the European Union decided that the percentage retained by member states would decrease from 25% to 20%. This decision came into force on 1 October 2016, and applied retroactively from 1 January 2014.
- The ORD identifies corrections in favour of certain member states (including the UK rebate). Corrections are based on the principle whereby any member state sustaining a budgetary burden which is excessive in relation to its relative prosperity is likely to benefit from a correction when the time comes. Calculating the UK rebate is complex, but it is broadly equivalent to 66% of the difference between the UK's contribution to the EU budget, and its receipts from the EU budget.
- HM Treasury recorded the UK net contribution to the EU budget in 2015-16 as £10.8 billion. This net contribution figure takes account of payments to the UK public sector from the EU budget, but does not include funds secured by public or private organisations through competitions.

Source: HM Treasury and Council of the European Union



## UK remote contingent liabilities relating to its membership of the EU, 2015-16

The Consolidated Fund Account 2015-16 notes a number of remote contingent liabilities relating to:

- European Investment Bank: callable capital subscription; and
- loans guaranteed by the EU budget.

Remote contingent liability	£ billion	Description
European Investment Bank	28.3	The EIB Board of Directors may call upon member states to pay their share of the balance of subscribed capital for the EIB to meet its obligations. This has never happened.
<b>Loans guaranteed by the EU budget:</b>		
European Financial Stabilisation Mechanism (EFSM)	6.6	The EFSM allows the EU to grant up to €60 billion in financial assistance to any member state: €22.5 billion was provided to Ireland in 2010 and €24.3 billion to Portugal in 2011; £6.6 billion represents the UK's indicative share of the total drawdown from this fund, plus interest.
Balance of Payments Facility (BoPF)	1.2	The BoPF allows the EU to offer up to €50 billion in medium-term financial assistance to member states outside the euro area. Hungary, Latvia and Romania have outstanding loans of €8.6 billion, of which the UK's share is £1.2 billion.
Third countries	3.4	EU guarantees and EIB lending to non-EU countries. The EU budget finances a guarantee fund which would bear the first losses in event of default on these loans.
Other (macro-financial assistance, EIB lending, Euratom)	0.4	
<b>Total</b>	<b>39.9</b>	

Source: Consolidated Fund Account 2015-16



## Relevant National Audit Office publications

