



National Audit Office

Report

by the Comptroller
and Auditor General

Financial management of the European Union budget in 2014: a briefing for the Committee of Public Accounts

Key facts

€143.9bn¹

EU revenue in 2014
(£116.0 billion)²

€142.5bn

EU payments in 2014
(£114.8 billion)

- £11.4 billion**
(€14.1 billion) UK gross contribution to the EU budget in 2014 (taking into account the UK rebate³)
- £5.7 billion**
(€7.1 billion) UK net contribution to the EU budget in 2014 (taking into account the UK rebate, and public- and private-sector receipts)
- Since 2007** the European Court of Auditors has given a true and fair opinion on the accounts of the EU
- Since 1994** the European Court of Auditors has given an adverse opinion on the legality and regularity of EU payments
- 4.4%** The European Court of Auditors' estimated level of error in EU payments during 2014, above its 2% materiality threshold
- 120** European Commission actions to reduce errors by simplifying processes, increasing accountability and increasing flexibility in how member states can spend public-sector receipts from the EU budget

1 All euro figures on this page are sourced from the European Commission.

2 All sterling figures are based on European Commission euro figures. We have calculated sterling figures using HM Treasury's annual average exchange rate for 2014 of £1 = €1.240977, rounded to 1 decimal place.

3 In 2014 the UK received a rebate of €6.1 billion. 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. The method for calculating the rebate is laid down in Council Decision 2007/436/EC, and in the supporting Council of the European Union document *Method for the calculation of the UK correction*.

Summary

1 The European Union (EU) operates a financial management regime that determines how it collects revenue in the form of contributions from member states, and how these are subsequently managed and accounted for.

2 In 2014 the EU budget received €143.9 billion in contributions from 28 member states and other sources,¹ and made €142.5 billion in payments.² The UK made a gross contribution (post-rebate³) of €14.1 billion (£11.4 billion), and received EU public- and private-sector receipts of €7.0 billion (£5.6 billion). It therefore made a net contribution of €7.1 billion (£5.7 billion).⁴ This was the third-largest net contribution to the EU budget.

3 On 10 November 2015 the European Court of Auditors (ECA) published the results of its audit of the EU budget in 2014. These are the most up-to-date audited financial results of the EU budget.⁵

4 This briefing on financial management of the EU budget has been prepared for the UK Committee of Public Accounts, drawing exclusively from published material. It includes:

- an overview of the EU financial framework;
- the opinions and findings of the ECA with respect to the EU budget in 2014; and
- the use made of EU monies in the UK, including oversight arrangements and information on the extent to which these monies have been managed in line with EU requirements.

¹ Member states contributed approximately €134 billion. Other sources contributed approximately €10 billion.

² Member states received approximately €129 billion in payments from the EU budget.

³ In 2014 the UK received a rebate of €6.1 billion. 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. The method for calculating the rebate is laid down in Council Decision 2007/436/EC, and in the supporting Council of the European Union document *Method for the calculation of the UK correction*.

⁴ Throughout this briefing, sterling figures have been calculated using HM Treasury's annual average exchange rate for 2014 of £1 = €1.240977, and rounded to 1 decimal place.

⁵ The EU financial year is based on the calendar year of 1 January to 31 December, whereas the UK financial year runs from 1 April to 31 March.

Key points

The EU budget

- The EU budget is agreed annually by the European Parliament and the Council of the European Union (the Council), within the terms of a seven-year agreement known as a multiannual financial framework (MFF). The current MFF covers the period 2014 to 2020.
- The current MFF allows the EU to make up to €960.0 billion in commitments (legal pledges to finance specific activities), and €908.4 billion in payments (money to be paid from the EU budget to beneficiaries). Respectively these are 3.4% and 3.7% less (in 2011 prices) than under the previous (2007–2013) MFF.

Audit results

- The ECA concluded that the 2014 EU accounts were true and fair. They have been true and fair since 2007.
- The ECA reached an adverse opinion on the regularity and legality of EU **payments**. The estimated level of error for 2014 was 4.4%, above the ECA's materiality threshold of 2%. Errors relating to payments in 2014 mean that this threshold has now been breached for the last 21 years. The ECA reported that **revenue** in 2014 was legal and regular.
- The ECA's estimated level of error represents money that was not used, or administered, in accordance with EU regulations and national rules. In 2014, the principal sources of errors included ineligible costs included in cost claims, serious errors in public procurement, and incorrect declarations of area by farmers. The ECA's estimated level of error is not an estimate of fraud.

Action to address errors

- The UK Committee of Public Accounts recommended in 2005 and 2009 that EU rules should be simplified to reduce errors.
- The ECA has recommended improvements in control systems at member state and EU levels, and further simplification of the rules, to reduce errors and enhance the results achieved from EU spending.
- In 2014 the European Commission (the Commission) and member states took corrective action to reduce the occurrence of errors by applying corrective measures in cases of irregular expenditure. If such corrections had not been applied, the ECA's overall estimated level of error would have been 5.5% rather than 4.4%.
- The Commission has an action plan to pursue simplification, increase accountability and improve flexibility, as well as focus on results achieved from EU spending.
- A mid-term review of the current MFF is scheduled for the end of 2016. This will enable EU institutions to reassess priorities for the remaining years of the current MFF.

The EU budget and the UK

- In 2014 the UK made a net contribution to the EU budget of £5.7 billion. It received public-sector receipts worth £4.6 billion. £3.2 billion of public-sector receipts contributed to the EU's objective *Sustainable growth: natural resources*, which includes support for rural development, and environmental measures. In addition, £1.4 billion of public-sector receipts to the UK contributed to the EU's objective of *Smart and inclusive growth*: promoting competitiveness to increase growth and jobs, and also supporting economic, social and territorial cohesion. Public-sector receipts do not include EU grant receipts secured by UK organisations through competitions.
- In common with all EU member states, the UK has adopted a structure whereby specific organisations manage, pay, certify, and audit the EU monies the UK receives.