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.
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:

- 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

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.
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.

The following EU treaties are currently in force

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

   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.

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

   This treaty recognises EU rights, freedoms and principles.

5. Treaty of Lisbon (2009)
   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.

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.
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)*

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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

The UK has opted out of joining the euro area and is not a member of the European Central Bank.

**European Central Bank**
- Governing Council of six executive board members and 19 national central bank governors from euro area member states
- Formulates monetary policy for the euro area to maintain price stability

**European Council**
- National leaders of member states, and Presidents of the European Commission and European Council
- Provides political direction

**European Commission**
- 28 commissioners, one from each member state
- Executive body of the EU

**European Parliament**
- Political assembly of 751 directly elected members
- Proposes and debates legislation

**Council (of the European Union)**
- Political assembly of ministers from 28 member states
- Policy coordination

**Court of Justice of the European Union**
- Judges from 28 member states
- Interpretation and arbitration of EU law

**Court of Auditors**
- 28 members, one from each member state
- External auditor of the EU

**European Court of Auditors**
- Proposes legislation, and proposes and manages budget

**European Parliament**
- Proposes legislation, and proposes and manages budget

**Council (of the European Union)**
- Proposes legislation, and proposes and manages budget

**European Commission**
- Role in appointment of commissioners; scrutinises European Commission performance

**European Parliament**
- Scrutinises European Central Bank performance

**European Council**
- Sets political agenda

**Member state governments**
- Role in appointment of commissioners

**Citizens**
- New budget or law
- New budget or law

**Function**
- Representation
- Process for establishing a new budget or law

**Assurance**
- Audit

**New budget**
- Co-decision to accept new budget or legislation

**New law**
- Legal interpretation and arbitration
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.

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**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.¹

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.²,³

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

1. 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.

2. 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.

3. 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.

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**

- Sustainable growth: natural resources
- Smart and inclusive growth
- Competitiveness for growth and jobs

87% of 2015 EU budget payments supported these three objectives

**EU objectives supported by the following principal funds**

- European Agricultural Guarantee Fund
- European Agricultural Fund for Rural Development
- European Maritime and Fisheries Fund
- European Regional Development Fund
- Cohesion Fund
- European Social Fund
- Horizon 2020
- Youth Employment Initiative

**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.

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

Note

1 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**
    - €57 billion
  - **Cash and cash equivalents**
    - €22 billion
  - **Available for sale financial assets**
    - €9 billion
  - **Pre-financing**
    - €40 billion
  - **Receivables and recoverables**
    - €11 billion
  - **Property, plant and equipment**
    - €9 billion
  - **Other advances to member states**
    - €5 billion
  - **Other**
    - €2 billion

### EU liabilities

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

  - **Accrued charges and deferred income**
    - €70 billion
  - **Pensions and other employee benefits**
    - €63 billion
  - **Borrowings**
    - €57 billion
  - **Payables**
    - €32 billion
  - **Other liabilities**
    - €5 billion

### Financial statements also record

- **Contingent assets**
  - €0.5 billion
- **Contingent liabilities**
  - €27.6 billion

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1. 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.
2. 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.
3. 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.
4. The European Commission prepares its consolidated annual accounts of the European Union 2015 in accordance with International Public Sector Accounting Standards (IPSAS).
5. Figures may not sum exactly due to rounding.

Source: European Commission
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

UK contribution to the EU budget

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.

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 (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, European Development Fund);
- some salaries and allowances, and pensions associated with UK representation in the EU (UK members of the European Parliament) and European Parliamentary processes taking place in the UK (elections).

Notes

1 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).
2 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.
3 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.
4 Contribution figures are based on the UK financial year (1 April to 31 March) not the EU financial year (1 January to 31 December).
5 The UK has a 16% equity investment in the European Investment Bank, valued at £8.1 billion in March 2016.
6 The UK is due to contribute €4.5 billion to the European Development Fund between 2014 and 2020.
7 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.
8 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)

<table>
<thead>
<tr>
<th>Year Range</th>
<th>UK contributions to the EU budget (£bn)</th>
<th>EU budget payments to UK public sector bodies (£bn)</th>
<th>Forecast EU budget payments to UK public sector bodies (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11 to 2015-16</td>
<td>Forecast 78.3</td>
<td>80.4</td>
<td>Actual 28.4</td>
</tr>
<tr>
<td></td>
<td>Difference 2.0</td>
<td></td>
<td>Difference 4.4</td>
</tr>
<tr>
<td></td>
<td>(forecast is 3% lower than actual)</td>
<td></td>
<td>(forecast is 15% higher than actual)</td>
</tr>
<tr>
<td>2016-17 to 2021-22</td>
<td>Forecast 94.2</td>
<td>–</td>
<td>Actual 35.8</td>
</tr>
<tr>
<td></td>
<td>(forecast is 3% lower than actual)</td>
<td></td>
<td>(forecast is 15% higher than actual)</td>
</tr>
</tbody>
</table>

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)
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.

UK

Largest spending categories
- Agriculture, rural development and fisheries: £2.9 billion
- Regional and social development: £1.7 billion

EU budget

Secured through competitions: £1.4 billion (estimate)

Typical recipients
- Higher and secondary education establishments
- Private for-profit entities
- Research organisations
- Public bodies

Funding objectives
- Research, technological development and innovation
- Information and communications technology (ICT)
- SMEs, agriculture, aquaculture
- Low carbon economy

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

Department for Environment, Food & Rural Affairs (Defra)

£6.3 billion
Total departmental expenditure

- £2.1 billion
- £3.1 billion

- European Agricultural Guarantee Fund (EAGF): £1.6 billion
- European Agricultural Fund for Rural Development (EAFRD): £0.5 billion

Total £2.1 billion

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.

Department for Communities and Local Government (DCLG)

£4.6 billion
Total departmental expenditure

- £0.6 billion
- £4.0 billion

- 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

- £0.8 billion

- European Social Fund (ESF): £0.3 billion

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

Notes
2 The total of £2.1 billion funding from the EU spent in England also reflects European Fisheries Fund payments of £3.5 million made by the Marine Management Organisation.
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 2020.¹ ²

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

Notes
1. 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.
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. 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).
3. 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.
4. 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.
5. 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, 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

1. 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:

- 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

**European Parliament:**
1. grants, refuses or postpones a discharge of the European Commission (if approved, the accounts of a given year are closed and approved); and
2. makes recommendations to the European Commission

**European Commission:**
- Responds to European Parliament recommendations
- And grants funds to European Commission

**European Parliament and Council of the European Union:**
- Examine EU spending and report to the European Parliament

**European Commission:**
- Spends funds, and submits:
  1. Annual accounts to the European Parliament and the Council of the European Union
  2. An Annual Management and Performance Report (detailing management achievements), and a communication on the Protection of the EU budget to the European Parliament, Council of the European Union, and European Court of Auditors
  3. A Financial Report (overview of EU revenue sources and allocation of funds to member states) made available online

**European Court of Auditors:**
1. Examines the accounts of all revenue and expenditure of the EU budget, produces an opinion, and issues a statement of assurance;
2. Issues special reports, opinions and landscape reviews; and
3. Reports to the European Parliament

**European Parliament, Committee on Budgetary Control:**
1. Considers annual accounts from the European Commission;
2. Considers annual synthesis report from the European Commission;
3. Considers reports from the European Court of Auditors;
4. Considers advice from the Council of the European Union; and then
5. Reports its opinion to the European Parliament

**European Parliament:**
- Considers annual accounts from the European Commission;
- Considers annual synthesis report from the European Commission;
- Considers reports from the European Court of Auditors;
- Considers advice from the Council of the European Union; and then
- Reports its opinion to the European Parliament

**Note:**
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

1 Smart and inclusive growth
2 Sustainable growth: natural resources
Other
EU policy area

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’.
European Regional Development Fund, European Social Fund, and Youth Employment Initiative allocations, 2014 to 2020

**Total for UK: €11.0 billion**

**Total for England: €7.1 billion**

### Regional distribution of EU budget funding in the UK

<table>
<thead>
<tr>
<th>Region</th>
<th>Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>North West</td>
<td>€1,159 million</td>
</tr>
<tr>
<td>London</td>
<td>€805 million</td>
</tr>
<tr>
<td>Yorkshire and the Humber</td>
<td>€798 million</td>
</tr>
<tr>
<td>Wales</td>
<td>€2,413 million</td>
</tr>
<tr>
<td>West Midlands</td>
<td>€860 million</td>
</tr>
<tr>
<td>North East</td>
<td>€763 million</td>
</tr>
<tr>
<td>East</td>
<td>€389 million</td>
</tr>
<tr>
<td>Scotland</td>
<td>€941 million</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>€613 million</td>
</tr>
<tr>
<td>South West</td>
<td>€905 million</td>
</tr>
<tr>
<td>East Midlands</td>
<td>€608 million</td>
</tr>
<tr>
<td>South East</td>
<td>€286 million</td>
</tr>
<tr>
<td>Gibraltar</td>
<td>€11 million</td>
</tr>
</tbody>
</table>

### Notes

2. 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.
3. 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.
## European Agricultural Guarantee Fund payments, 2014-15

### Total for UK: £2.7 billion

**Total for England: £1.7 billion**

<table>
<thead>
<tr>
<th>Region</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>South West</td>
<td>£343 million</td>
</tr>
<tr>
<td>East Midlands</td>
<td>£230 million</td>
</tr>
<tr>
<td>Yorkshire and the Humber</td>
<td>£169 million</td>
</tr>
<tr>
<td>Scotland</td>
<td>£412 million</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>£310 million</td>
</tr>
</tbody>
</table>

#### Regional distribution of EU budget funding in the UK

- **South West**: £343 million
- **East Midlands**: £230 million
- **Yorkshire and the Humber**: £169 million
- **Scotland**: £412 million
- **Northern Ireland**: £310 million

#### Notes

2. Figures may not sum exactly due to rounding.

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**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**
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 €6.7 billion
- More than €2.0 billion

Since 2014¹

- €

Number of grant recipients

- 15,753
- 4,793

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

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

Note

¹ 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.²,³

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.⁴

<table>
<thead>
<tr>
<th>Components</th>
<th>Deductions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT-based contribution</td>
<td>less rebate</td>
<td></td>
</tr>
<tr>
<td>£2.8 billion</td>
<td>£4.1 billion</td>
<td>£13.6 billion</td>
</tr>
<tr>
<td>GNI-based contribution</td>
<td>less cost of collecting duties and levies</td>
<td></td>
</tr>
<tr>
<td>£12.6 billion</td>
<td>£0.8 billion</td>
<td></td>
</tr>
<tr>
<td>Customs duties and sugar levies</td>
<td>less</td>
<td></td>
</tr>
<tr>
<td>£3.1 billion</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\[(A + B - C) + (D - E) = F\]

Notes
1. 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.
2. 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.
3. 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 prospectively from 1 January 2014.
4. 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.
5. 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.

<table>
<thead>
<tr>
<th>Remote contingent liability</th>
<th>£ billion</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Investment Bank</td>
<td>28.3</td>
<td>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.</td>
</tr>
<tr>
<td>Loans guaranteed by the EU budget:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>European Financial Stabilisation Mechanism (EFSM)</td>
<td>6.6</td>
<td>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.</td>
</tr>
<tr>
<td>Balance of Payments Facility (BoPF)</td>
<td>1.2</td>
<td>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.</td>
</tr>
<tr>
<td>Third countries</td>
<td>3.4</td>
<td>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.</td>
</tr>
<tr>
<td>Other (macro-financial assistance, EIB lending, Euratom)</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39.9</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Consolidated Fund Account 2015-16
Relevant National Audit Office publications

**February 2016**
Financial management of the European Union budget in 2014: a briefing for the Committee of Public Accounts
This report provides an overview of the European Union (EU) budget, the framework within which it is managed, and associated oversight and accountability arrangements.

**October 2016**
Progress on the Common Agricultural Policy Delivery Programme

**December 2015**
Early Delivery of the Common Agricultural Policy Delivery Programme
This report examines whether the Department for Environment, Food & Rural Affairs has managed the Common Agricultural Policy Delivery Programme well so far and, in doing so, whether it delivered value for money.

**July 2015**
Managing disallowance risk
This memorandum examines past causes of disallowance, the risks of future disallowance arising from Common Agricultural Policy reform and how these risks are being managed.