Dear Ms Hillier,

Treasury Publication: ‘European Union Finances 2017: statement on the 2017 EU Budget and measures to counter fraud and financial mismanagement’

Last year I wrote to you to highlight the Treasury’s annual statement on EU finances, and the information contained in this publication on the use of EU funds in the UK, including strategies to minimise disallowance relating to EU funds. I promised that the Treasury would write each year highlighting the annual statement and the information it contains.

This year’s statement was published on Friday 16th March and can be found online at:


Chapter 5 of the report once again summarises: the Government’s overall approach to the EU Budget while we remain a member; the strategies in place for the effective management of major EU funds in England; and the overall strategy for minimising disallowance relating to EU funds.

As I set out last year, Government departments publish information about possible disallowance or financial corrections relating to EU funds in their department annual accounts and reports, and the Treasury monitors these disallowance provisions. The information we have pulled together from departments on disallowance gives some indication of the levels of error in the management of EU funds in the UK. However, and as the statement once again notes, it is important to exercise caution when looking at the aggregate numbers, not least because disallowance provisions added to balance sheets in
any given year can relate to activity that has taken place in a number of previous years, due to the lags in assessing spending.

The statement includes updates on performance in using EU funds and efforts to minimise disallowance. The Committee may note disallowance provisions relating to the Common Agricultural Policy (CAP) highlighted in this year’s statement (see pages 36 and 39 of the document). The particular disallowance provisions added to DEFRA’s accounts in 2016-17 were expected to be high as they relate to 2015 and 2016 audits when new, complex CAP arrangements were put in place, including a new and unknown Commission approach to auditing the fund. Specifically, the new provisions are entered in respect of Basic Payment Scheme (BPS) audits primarily relating to entitlements (required by farmers claiming direct payments). Following engagement with the Commission, DEFRA have informed us that they expect the final disallowance associated with the audit of 2015-16 BPS entitlements will be less than the original forecast which informed the provisions made.

It is also important to note that the overall success of DEFRA’s strategy in reducing disallowance will not be known until the Commission concludes audits on CAP expenditure for the relevant 2015-2020 period.

In subsequent annual statements, we will continue to provide updates on how the Government is performing against the strategies above, including in its efforts to minimise disallowance. The Treasury will continue its efforts on improving the Government’s management of EU spending while the UK remains a member of the EU. Once again, I would welcome any comments on this year’s annual statement so that we can continue to improve subsequent statements.

Yours,

Tom Scholar