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The Rt Hon. Lord Boswell of Aynho  
Chairman  
European Union Committee  
Committee Office  
House of Lords  
London SW1A 0PW

11 March 2014

*Dear Tim*

European Court of Auditors' Annual Report on Implementation of the 2012 EU Budget

Thank you for your letter of 11 February 2014 regarding the European Court of Auditors' (ECA) Annual Report on the Implementation of the EU Budget in 2012. I thank the committee for clearing this document from scrutiny and note your additional questions.

#### Responsibility for EU budget implementation

Your letter asked for clarification of the Government's view that implementation of the EU Budget is largely the responsibility of the Commission. As I set out in my letter of 30 January 2014, the Government believes that Member States have a clear responsibility to effectively manage the EU funds that they receive. I agree with the committee that this responsibility should involve a degree of proactive monitoring, by Member States, on the use of funds in order to ensure compliance with existing obligations.

However, as recognised by the ECA in its recommendations, the Commission needs to better identify and resolve the reasons behind the steadily rising error rate. While the Commission's responsibilities in this area do not absolve Member States of their obligations, it is important to recognise the Commission's overarching role in facilitating Member States' compliance. This has become increasingly clear within the context of simplification as many of the existing rules governing the management of EU funds are complex and have resulted in differing interpretations of the requirements. While these

differing interpretations do not always lead to funds being spent inappropriately, they do contribute to the error rate.

The Government therefore considers it essential that the Commission ensures that the rules governing financial management of EU funds are understandable and that associated guidance facilitates a universal interpretation and application of Member States' obligations in this area. It is for this reason that the UK continues to work with like-minded Member States to proactively urge the Commission to act on the ECA's call for further simplification.

#### Possible single audit authority function for 2014-2020

Your letter referred to the steps taken to address the UK specific concerns in the ECA's report and requested an update on a possible single audit authority function for 2014-2020 European Regional Development Fund and European Social Fund programmes. May I first apologise for the typo in my earlier letter incorrectly attributing this work to BIS and DWP rather than DCLG and DWP. This initiative is an encouraging example of a Member State proactively seeking to simplify and better coordinate a national process to improve financial management. As there have been no developments since my letter of 30 January 2014, I am unable to provide an update at this time but can confirm that a decision is expected this year.

#### GNP and GNI reservations

With regards to the GNP reservation, following extensive cooperation and engagement between the UK and Eurostat, I am pleased to confirm that this reservation relating to insurance was lifted in November 2013. The time taken to lift it was primarily due to the complexity of the subject and the extent to which the Office for National Statistics (ONS) had to develop new methodologies and make system changes across a number of areas in the National Accounts.

With regards to the outstanding GNI reservations, these have been introduced over several years. However, the Government continues to give high priority to addressing these reservations in the National Accounts work plan. In addition, the ONS has agreed priorities with stakeholders and publically set out commitments via the published plan.

Significant progress has been made over the last few years on lifting such reservations. In Blue Book 2012, three country-specific reservations were addressed and lifted, including the GNP reservation for insurance. In Blue Book 2013, the UK aimed to address a further three country-specific reservations and one transversal reservation. Note that transversal reservations are those applied to all EU Member States, highlighting inconsistencies in treatment between Member States or detailing areas in



which all Member States need to make improvements. In Blue Book 2014, ONS plans to address a further four country specific reservations and two transversal reservations.

Most recently, Eurostat undertook a direct verification visit in February. Going forward, ONS have agreed to send methods papers and published articles to Eurostat in advance of the Questionnaire and Quality Report, submitted annually in September. This will facilitate dialogue in advance of Eurostat assessments to ensure high level proposals are meeting the broad scope of the reservation.

I am copying this letter to William Cash MP, Chair of the Commons Committee; Jake Vaughan, Clerk to the Lords Committee; Stuart Stoner, Clerk to Lords Sub-Committee A; Les Saunders, Cabinet Office, Kunal Patel, Thomas Kenny and Gary McMillan, HM Treasury.

*Morgan*

*Nicky*

NICKY MORGAN MP  
ECONOMIC SECRETARY TO THE TREASURY