

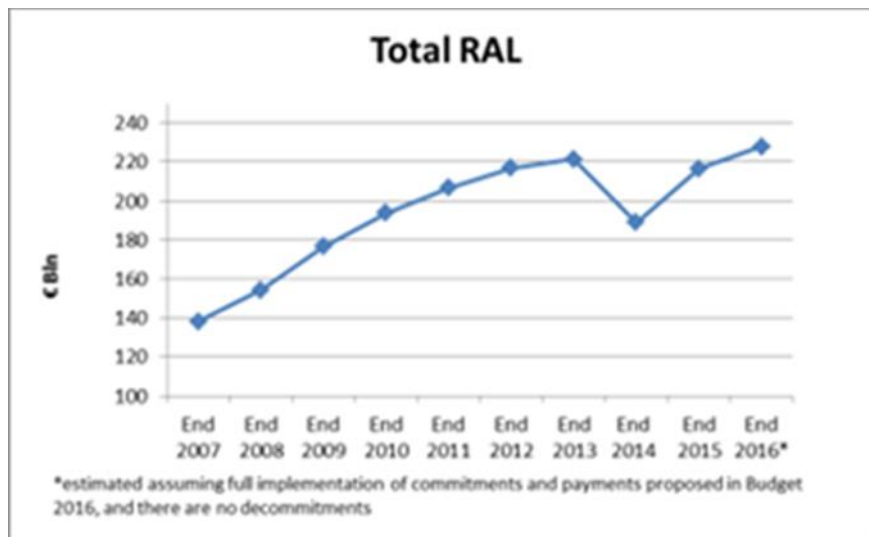


ERG: The EU Budget's hidden €217bn deficit – 'Reste à liquider' (RAL)

RAL is the difference in the EU budget between '**Commitments**' – legal obligations (contracts etc) the EU has signed and '**Payments**' the actual spending from the EU budget. Commitments that are not immediately paid, perhaps because a member state lacks the ability to come forwards with appropriate projects, results in a build-up in "**outstanding commitments**" – currently €217bn.¹

- There are €217bn of outstanding commitments drawn on the EU budget that have not yet been cashed.
- The Commitments if presented would have to be paid, potentially leading to the UK being presented with a new EU Budget bill.
- David Cameron's EU budget "cut" compared payments with commitments.

The total picture has been rising over the current MFF:



Source: European Commission²

¹ European Commission budget report – see p.23:

http://ec.europa.eu/budget/library/biblio/documents/2015/2015_report_budgetary_financialmanagement.pdf

² European Commission, 2 March 2016; <http://ec.europa.eu/budget/library/biblio/documents/2015/active-monitoring-and-forecast-of-budget-implementation-2015.pdf>

Can the UK be asked to pay its share (€23.2bn) of the €217bn?

HMG view in the Balance of Competence Review: (emphasis added)

“With direct CAP payments, a commitment turns in to a payment in the same year with no time lag. In other areas the differentiation is important. With Structural Funds (which might include large infrastructure projects) there is a lag between commitments being realised into payments and some commitments are never spent. This could be because projects take time to implement or because matched funding from a Member State is not available. This creates unspent commitments, known as “RAL” – from the French ‘Reste à liquider’.

*There are some rules to try to limit the build-up of unspent commitments, including rules on the expiration of unused commitments. Nevertheless, the stock of RAL has been growing, particularly over 2007-13, and now stands at over €200bn. **This creates uncertainty in planning. In the negotiation for 2014-20 the UK put primacy on payments rather than commitments, given the uncertainty of commitments.**”³*

Current State of play: Joint statement of Commission and parliament 26 May:

“The constraint on the payment appropriations authorised in the past budgets combined with the implementation cycle of the cohesion programmes have led to the progressive building up of an unsustainable backlog of outstanding payment claims at year-end, reaching an unprecedented level of EUR 24.7 billion at the end of 2014. However, the institutions recognise that the difficult decisions made with regards to the 2014 and 2015 budgets have largely stabilised the backlog.”⁴

It should be noted that “outstanding payment claims” are not the same as RAL, which could turn into a payment claim but have not yet done so. The payment claims gap of £24bn was reported on 6 June as a “black hole” in the budget following a VoteLeave press release.⁵

David Cameron’s budget “freeze”: Expressed in “payments” rather than “commitments”

At the time of David Cameron’s MFF budget deal it was reported that:

“The split into commitments and payments allowed EU leaders to deliver different messages after last week’s summit. While most of the negotiations had focused on commitments, declarations focused on payments as David Cameron the UK’s prime

³ Balance of Competence review:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/332762/2902399_BoC_EU_Budget_acc.pdf

⁴ European Parliament

http://www.europarl.europa.eu/meetdocs/2014_2019/documents/budg/dv/2015_joint_statement_payment_plan/2015_joint_statement_payment_plan_en.pdf; <http://www.consilium.europa.eu/en/press/press-releases/2015/05/26-eu-budget-backlog/>

⁵ Vote Leave, 6 June 2016;

http://www.voteleavetakecontrol.org/uk_taxpayers_face_eu_triple_whammy_paying_for_euro_bailouts_a_higher_eu_budget_and_an_extra_2_4_billion_bill FT, <http://www.ft.com/cms/s/0/0bba3918-2b35-11e6-bf8d-26294ad519fc.html>

minister, and others sought to present as low an overall figure to their electorates as possible. The EU's net beneficiaries, meanwhile, were able to play up the commitments.”⁶

David Cameron in his statement in Feb 2013 refers to “Payments ceiling” – commitments - and compares it to “Payments limit” - payments – and claimed a “budget cut”⁷

Potential Question:

Does the UK government agree with the BofC conclusion that these “*creates uncertainty in planning*” the EU budget, that these commitments are legally binding on the EU and if presented could end up with an additional bill for the UK

Information from the House of Commons Library:

From: KEEP, Matthew

Sent: 13 June 2016 17:13

To: HOWARTH, Christopher <howarthc@parliament.uk>

Subject: RE: Library enquiry: outstanding commitments or reste à liquider (RAL) (ref. 16/06/080-EPAS)

Hi Chris,

In general yes, the enquiries are carried out for MPs. I should elaborate a bit further on my last sentence and specifically “potentially meaning requests for larger contributions from Member States or reduced spending on EU programmes”. Whether or not larger contributions or reducing spending elsewhere are used to deal with backlogs depends on the annual budget negotiations. The UK Government, and other budget hardliners, say that backlogs should be dealt with by re-allocating spending from other areas of the budget. This means that if the Commission comes to the Council, as part of the budget negotiations, requesting payments greater than they would otherwise have been, they may well be knocked down and told to re-allocate payments from other areas of the budget. The point being that backlogs do not necessarily result in additional contributions.

I should also highlight that in 2015 the European Parliament and Council [agreed a plan](#) for reducing the backlog of outstanding payment claims from the cohesion programmes; this is discussed in [section 3.3](#) of the EPRS’s briefing.

There is also more on the issue in this blog from [full fact](#).

⁶ Politico, 13 February 2013: <http://www.politico.eu/article/commitments-and-payments/>

⁷ Hansard, 11 February 2013: <http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm130211/debtext/130211-0001.htm>

I hope this helps. Do let me know if I can help further.

Kind regards,
Matt

From: KEEP, Matthew

Sent: 10 June 2016 11:52

To: HOWARTH, Christopher <howarthc@parliament.uk>

Subject: RE: Library enquiry: outstanding commitments or reste à liquider (RAL) (ref. 16/06/080-EPAS)

Hi Christopher,

I don't see that cancelling them would be an option, although a small proportion do get dropped each year because it becomes clear that they are not going to require payment.

I'm not sure whether the problem is so much a state suddenly claiming payment – this isn't really the way that these programmes operate. I think the problem is more of insufficient payments being available in the EU's annual budget to meet past contributions as they naturally turn into payments in a given year. The European Commission is authorised to make payments up to a level set by the European Parliament and Council in budget negotiations – if actual payments exceed this limit the Commission must request further funds or roll unpaid bills to the following year. These unpaid bills are referred to as the 'abnormal backlog' and are discussed in [sections 2.5 – 6](#) of a European Parliament Research Service report.

Ultimately the EU cannot borrow so any payments that it needs to make must be funded from Member State contributions plus some other relatively small revenues. If an annual budget has insufficient funds to make requested payments this puts pressure on future budgets, potentially meaning requests for larger contributions from Member States or reduced spending on EU programmes.

If you want to discuss this further please call me on 020 7219 4324.

Kind regards,

Matt

From: HOWARTH, Christopher

Sent: 10 June 2016 11:07

To: KEEP, Matthew <KEEPM@parliament.uk>

Subject: RE: Library enquiry: outstanding commitments or reste à liquider (RAL) (ref. 16/06/080-EPAS)

No, I guess in total what he wants to know is what happens if they keep going up, I can see from the way they do the accounts there will always be a gap but a growing one must create a danger that a state will be able to catch up and claim them and so put pressure on the budget?

And if they cancel them the shares between states will change, as Eastern states and Greece have less capacity to absorb the funding.

From: KEEP, Matthew

Sent: 10 June 2016 11:00

To: HOWARTH, Christopher <howarthc@parliament.uk>

Subject: RE: Library enquiry: outstanding commitments or reste à liquider (RAL) (ref. 16/06/080-EPAS)

Hello Christopher,

As I hope you saw from my out-of-office reply I wasn't working the last few days. Have you asked anyone else about this in my absence?

Kind regards,

Matt

From: KEEP, Matthew

Sent: 07 June 2016 13:32

To: HOWARTH, Christopher <howarthc@parliament.uk>

Subject: RE: Library enquiry: outstanding commitments or reste à liquider (RAL) (ref. 16/06/080-EPAS)

Hi Chris,

The outstanding commitments continue to the next MFF – around €65 million of the current outstanding commitments are from previous programme periods ie before 2014. Having outstanding commitments isn't necessarily a problem, it is a fact of the way the EU budget separates commitments and payments. Problems can arise if increases in commitments are much higher than in payments. The European Commission discussed this in a [Q&A on draft budget 2013](#).

In your second line are you asking about decommitting all outstanding commitments? I'm not sure why one would want to do that. It would mean, for instance, funds that had been committed to projects under programmes such as the European Regional Development Fund not being paid.

Thanks,

Matt

From: KEEP, Matthew

Sent: 07 June 2016 12:51

To: HOWARTH, Christopher <howarthc@parliament.uk>

Subject: Library enquiry: outstanding commitments or reste à liquider (RAL) (ref. 16/06/080-EPAS)

Dear Christopher,

You asked about the EU budget's outstanding commitments, often referred to as reste à liquider (RAL).

What are outstanding commitments?

The EU records spending for most programmes in its budget under two different definitions:

- Commitments - cover the cost of legal obligations, such as contracts or grants, which the EU may sign in a financial year. They are the amounts the EU promise in a given year to spend but which may be spent in that same year or over several years
- Payments - cover spending in the budget year. This is spending arising from commitments made in the same year or in previous years

The amount committed but not yet paid out to beneficiaries is called 'outstanding commitments'. Outstanding commitments represent an EU budget liability in the short and medium term, with an impact on the level of payment appropriations needed for current and future years.

There is more on this in [sections 2.3 – 2.7](#) of the European Parliament Research Service's briefing Payments backlog in recent EU budgets.

What is the current level of outstanding commitments?

At the end of 2015 the EU had outstanding commitments of €217 billion – the majority of which arises from the EU's cohesion programmes such as the [European Regional Development Fund](#). Further analysis of outstanding commitments is available in [section A.7](#) of the European Commission's report on the financial management of the 2015 EU Budget.

Legality of commitment appropriations

The [European Commission states](#) that commitment appropriation are 'legally binding promises of funding...'

I hope this helps. If you have any further questions please get in contact.

Kind regards,

Matt

Matthew Keep

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