

Chapter 7

Central Government

European Union – Financial Transactions 2009

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7.1 The budget of the European Union (EU) is financed by own resources and some additional receipts. Own resources comprise

- the proceeds of customs duties and sugar levies (also referred to as traditional own resources) less a retention of 25% for collection costs (13% of total EU revenue)
- a VAT-based own resource under which an annually agreed percentage is levied on the VAT base of all member states (12% of total revenue)
- an own resource based on Gross National Income (GNI) under which the same percentage is levied on each member state's GNI in accordance with EU rules (73% of total revenue).

7.2 The additional receipts into the EU budget include interest, refunds and any surplus carried over from the previous year (2% of total revenue).

7.3 Ireland is a net beneficiary of EU funding and receipts from and payments to the EU budget over the past five years are set out in Figure 29.

Figure 29 Ireland's Receipts from and Payments to the EU Budget 2005 - 2009

Year	Annual Receipts € billion	Annual Payment € billion	Surplus/ (Deficit) € billion
2005	2.4	1.5	0.9
2006	2.2	1.5	0.7
2007	2.1	1.6	0.5
2008	2.1	1.6	0.5
2009	1.8	1.5	0.3
Total	10.6	7.7	2.9

Source: Department of Finance

Chapter Focus

This chapter has been compiled to present an overview of the financial transactions between Ireland and the European Union, the procedures for the allocation of EU funds and the various audit arrangements relating to those funds.

Contribution to EU Budget

7.4 The Irish contribution to the EU budget for 2009 was €1.5 billion. The component elements of this total are shown in Figure 30.

Figure 30 Ireland's Contribution to EU Budget 2009

Contribution Element	2009 Determination Base ^a	Amount €000
Traditional Own Resources	75% of total received into Exchequer	176,598
VAT-based Contribution	0.3278% of established VAT base	163,005
GNI-based Contribution	0.5847% of established GNI	1,000,612
UK Correction Mechanism ^b		114,884
NL/SE GNI Reduction ^c		31,209
Total		1,486,308

Source: Department of Finance

Notes:

- a The rates presented for the VAT and GNI based contributions are those agreed at the beginning of the budget year. These can alter during the year as amending budgets are agreed.
- b Since 1985, the UK has received a partial refund of its EU budget contributions. The refund is financed by contributions from all other member states in proportion to their national percentage of EU GNI.
- c For the period 2007-13, the Netherlands and Sweden benefit from a gross reduction in their annual GNI contribution of €605 million and €150 million, respectively, over the period. The refund is financed by contributions from all other member states in proportion to their national percentage of EU GNI.

Receipts from EU Budget Funds

7.5 Receipts of €1.8 billion from the EU in 2009 were sourced from particular EU Funds and Programmes. The 2009 receipts were applied by Ireland as amounts voted by Dáil Éireann of €384 million, Central Fund Payments of over €2 million and amounts paid directly to Implementation Agencies and Beneficiaries amounting to €1.3 billion as specified in Figure 31.

Figure 31 Ireland's 2009 Receipts by Source

Source of EU Receipts	Amount	Application of EU Funds		
		Votes	Central Fund	Direct ^a
		€000	€000	€000
<i>Agriculture and Rural Development</i>				
European Agricultural Guarantee Fund (EAGF) ^b	1,318,985	-	-	1,318,985
European Agricultural Fund for Rural Development (EAFRD)	329,171	329,171	-	-
European Agricultural Guidance and Guarantee Fund ^c	744	744	-	-
<i>Structural Funds^d</i>				
European Regional Development Fund (ERDF) ^e	57,713 ^f	-	57,156	557
European Social Fund (ESF)	42,810	42,810	-	-
Cohesion Fund	22,930	-	10,700	12,230
<i>Other Funds/Receipts</i>				
Other Receipts	38,398	11,673	14,730	11,995
Total	1,810,751	384,398	82,586	1,343,767

Source: Department of Finance

Notes:

- a These receipts are held separately from State or Voted funds and paid to recipients on behalf of the EU.
- b The principal component consists of Single Farm Payments amounting to almost €1.3 billion.
- c From 2007, the European Agricultural Guidance and Guarantee Fund was replaced by the EAGF and EAFRD.
- d The Structural Funds consists of the ERDF, which provides financial support for the development and structural adjustment of regional economies, the ESF, which provides for education, training and employment supports and Cohesion Funding for environmental and transport infrastructural projects. Ireland is no longer eligible for Cohesion Funding support from the end of 2003 and receipts recorded relate to claims prior to this date.
- e Includes receipts from the Programme for Peace and Reconciliation of €4.9 million.
- f This figure includes an amount of €9.3 million in respect of advances, which are retained in a suspense account and are used in pre-financing of projects approved for EU funding.

7.6 The €38.4 million in Other EU Receipts set out in Figure 31 is comprised of the funds detailed in Figure 32.

Figure 32 Estimated EU Receipts from Other Sources^a

Source of Other EU Receipts	Amount	Application of EU Funds		
		Votes	Central Fund	Direct
		€000	€000	€000
Financial Instrument for Fisheries Guidance	2,526	2,526	-	-
Fisheries Protection/ EAGF Fish Markets and Conservation and Management of Fisheries	617	617	-	-
European Fisheries Fund ^b	2,959	-	2,959	-
Veterinary Fund	6,424	6,424	-	-
Education Programmes	11,858	-	-	11,858
EEA/TENs/Other ^c	11,771	-	11,771	-
European Refugee/Integration/Return Funds ^d	2,106	2,106	-	-
CSO – Eurostat Receipts	137	-	-	137
Total	38,398	11,673	14,730	11,995

Source: Department of Finance

Notes:

- a Some EU Funds from other sources may be paid by the EU Commission directly to private firms or individuals e.g. research grants and therefore the term estimated is used.
- b Advances from this fund are retained in a suspense account and used in pre-financing of projects approved for EU funding.
- c These receipts relate principally to transport, energy and telecommunication projects.
- d These receipts consist of €1.5 million in respect of the European Refugee Fund and the Integration Fund for Third Country Nationals with the balance being receipts for the European Return Fund.

Allocation of EU Funds

7.7 EU budget policy is implemented on the basis of multi-annual financial programming periods. The current programme period is 2007-13 and the financial framework for this period was agreed between the European Parliament, EU Council and the European Commission (the Commission) under an Inter Institutional Agreement adopted in May 2006. The general and detailed rules for the implementation of the EU policy objectives are laid down in EU Council and Commission Regulations. An annual EU budget of expenditure and receipts is then agreed.

7.8 The annual EU budget is decided by the EU Council and the European Parliament on the basis of a budget proposal from the Commission, which is also responsible for implementing it. Across all EU member states, the largest single element of EU spending has been related to agriculture and rural development – principally in the form of payments to farmers – which accounted for 45% of the budget in 2009. Cohesion Funding accounted for almost 40% of the budget.

7.9 The main sources of EU funding to Ireland are Agricultural and Rural Development funds and Structural Funds. Ireland's share of Structural Funds has been decreasing over the years. Each component fund is governed by its own rules for financial management, control and accountability. A principal difference is that independently certified annual accounts of expenditure must be submitted each year for the Agriculture Guarantee and Rural Development funds, whereas for Structural Funds certified accounts must be submitted at the end of the programme period.

Agriculture Funds

7.10 EU expenditure on Agriculture and Rural Development is financed out of two funds

- the European Agricultural Guarantee Fund (EAGF), which, with a few exceptions, fully funds direct aid payments to farmers as well as a range of market support measures
- the European Agricultural Fund for Rural Development (EAFRD), which came into operation in 2007 and is used for co-financing measures implemented under Ireland's Rural Development Programme 2007-2013.

7.11 EAGF and EAFRD expenditure is paid by accredited paying agencies⁴² in member states. In Ireland, the Department of Agriculture, Fisheries and Food is the sole accredited paying agency and managing authority⁴³ for the EAGF and the EAFRD. The authority to make rural development payments in respect of specific measures of the EAFRD relating to LEADER⁴⁴ is delegated to the Department of Community, Equality and Gaeltacht Affairs.

7.12 EAGF expenditure is recouped on a monthly basis from the EU while EAFRD expenditure is recouped quarterly. At year-end, independently certified annual accounts of EAGF and EAFRD expenditure must be submitted to the Commission. The Secretary General of the Department of Agriculture, Fisheries and Food is required to provide annually a statement of assurance regarding the EAGF and EAFRD accounts and control systems. In the case of EAFRD, the Department submit an annual report on its implementation.

7.13 The Commission clears both of the annual accounts in two stages - by an annual clearance decision based on the independent certification of the annual accounts and by ad-hoc clearance decisions arising from follow up audit work by the Commission. The Commission undertakes an annual programme of audits on specific schemes and areas following certification of the annual accounts and conducted five audit missions in Ireland in 2009.

Structural Funds

7.14 The Regulations governing the Structural Funds require member states, in conjunction with the Commission, to prepare and agree Operational Programmes to implement strategic priorities and impose financial management and control requirements relating to the implementation of Structural Fund co-funded assistance.

7.15 Each member state is required under the Regulations to designate a Managing Authority for each Operational Programme. The member state must also designate an Audit Authority and a Certifying Authority for each fund. The functions and responsibilities of these bodies include the following

- The Managing Authority is responsible for managing and implementing the operational programme in accordance with the principles of sound financial management and for ensuring that activities selected for funding match the Operational Programme criteria. It is also responsible for verifying that co-financed projects are delivered, that expenditure declared by the beneficiaries has actually been incurred and complies with EU and national rules and that an adequate audit trail exists.

⁴² Paying agencies are accredited by member states if they comply with specific requirements on financial control and accountability over EU expenditure as set out in Community legislation (EU Reg. 885/2006).

⁴³ The Managing Authority is responsible for managing and implementing the programme in an efficient, effective and correct way.

⁴⁴ The LEADER initiative is designed to aid the development of sustainable rural communities.

- The Certifying Authority is responsible for drawing up and submitting certified statements of expenditure and applications for payment. It is responsible for ensuring the accuracy and probity of these statements of expenditure.
- The Audit Authority functions include ensuring that audits are carried out to verify the effective functioning of the management and control system of the Operational Programmes. It must present an audit strategy to the Commission and submit an Annual Control Report setting out the findings of audits carried out and provide an annual audit opinion as to whether the management and control systems function effectively.

7.16 The Department of Finance has overall policy responsibility for the Structural Funds and is also the Certifying Authority for the ERDF. There are two Managing Authorities for the ERDF in the 2007-13 programming period - the Regional Assembly for the Border, Midlands and Western region and the Regional Assembly for the Southern and Eastern region. The Department of Education and Skills⁴⁵, as Managing Authority and Certifying Authority, has primary responsibility for the ESF.

7.17 The Secretary General of each department involved in the implementation of co-financed projects is required to sign a declaration annually and submit it to the Department of Finance to confirm compliance with all applicable EU regulations. An Implementation Report is submitted annually to the Commission by each Managing Authority which sets out the financial implementation of the operational programmes in terms of targets and outturns and outlines the monitoring and evaluation procedures in place.

Audit of EU Funds

7.18 The audit arrangements in place within each of the relevant departments in relation to EU funds are outlined below together with an outline of the roles of my Office, the EU Commission and the European Court of Auditors (ECA).

Audit Authorities

Agriculture and Rural Development

7.19 The Department of Agriculture, Fisheries and Food appoint a firm of commercial auditors to provide an independent annual certificate and report on internal controls to the Commission. In addition, the Department's Internal Audit Unit finalised and issued seven system audit reports on the EAGF and EAFRD funded schemes in 2009.

⁴⁵ Responsibility for ESF policy and operations transferred from the Department of Enterprise, Trade and Innovation to the Department of Education and Skills on 1 May 2010.

Structural Funds

7.20 Audit Authorities known as Financial Control Units have been established in the Department of Finance, ERDF Financial Control Unit and the Department of Education and Skills ESF Financial Control Unit. The Control Units were required to perform annual minimum 5% verification checks⁴⁶ on total eligible expenditure within managing authorities, intermediate bodies and beneficiaries in operational programmes in the 2000-06 programming period.

7.21 In 2009, the ERDF Control Unit carried out audits in 34 organisations and in the course of these audits it verified expenditure to the value of €88 million in respect of the 2000-06 programming period. As at 31 December 2009, the Unit has verified expenditure of €441 million or 12% of the cumulative expenditure of €3.7 billion declared to the Commission. In 2009, the Unit verified Cohesion Fund⁴⁷ expenditure to the value of €2 million and to the end of 2009 the Unit had verified expenditure of €19 million out of the total of €777 million declared to the Commission.

7.22 As at 31 December 2009, the ESF Control Unit had verified cumulative expenditure in respect of the 2000-06 programming period of €222 million or 11% of the total of €1.9 billion declared to the Commission. In 2009, in respect of the 2007-13 programming period, it performed verification audits on 39 operations which included expenditure claims totalling €43 million. This represented 25% of the total claimed expenditure in 2007 and 2008 of €175 million.

7.23 System-based audits are also performed at each level to verify the effectiveness of the management and control systems in place and both of the Control Units coordinate an annual plan of systems-based audits to be completed by Internal Audit Units in bodies involved in the management and administration of the Operational Programmes. In addition, a series of system checks and compliance checks from the Managing Authority level down to the final beneficiary level is carried out in accordance with EU regulations⁴⁸.

Audit by the Comptroller and Auditor General

7.24 Where a Department or State Body audited by me is in receipt of EU funds, the receipt and application of the funds are audited in like manner to national funds and to all other transactions by that body. Audit planning has regard to the audit tasks undertaken by others including the ECA, the Financial Control Units and the independent external Certification Body for agricultural supports. Audit work includes testing of compliance with national rules that have been transposed from EU Directives and Regulations. However, the transposition process is outside the remit of the audit.

7.25 Inspection arrangements put in place by the Department of Agriculture, Fisheries and Food to confirm farmer eligibility for Single Payment Scheme entitlements and cross-compliance with regard to farm management, environmental, health and welfare conditions are examined in Chapter 27 of this Report.

⁴⁶ The requirement for 5% verification checks was changed for the 2007-13 programming period. EU Regulations now require that the sample of operations to be audited each year is based on a random statistical sampling method. A non-statistical method may be used where the number of operations is insufficient to allow the use of a statistical sampling method.

⁴⁷ The ERDF Financial Control Unit is also responsible for performing annual minimum 15% verification on eligible expenditure in respect of Cohesion Funding.

⁴⁸ Article 60 of General Regulation 1083/2006.

7.26 The administration of the aid payable under the Sugar Restructuring Scheme was examined by my Office during the course of the year. A summary of the findings of this examination are outlined in Annex A.

Audits by EU Commission

7.27 Audit services from the Commission carry out a number of audits annually in member states and have the right to carry out on-the-spot audits or may request a member state to audit specific programmes or projects.

European Court of Auditors

7.28 Ireland contributed almost €1.5 billion in 2009 towards the total EU budget of approximately €120 billion which amounted to about 1% of the Gross National Income of its 27 member states. Because Ireland's financial contribution is pooled with that of other member states it shares an interest that the common funds are managed to good effect. At EU level this assurance is provided by the ECA.

7.29 The ECA is required to give an annual Statement of Assurance (an audit opinion) on the reliability of the Accounts of the European Union and of the legality and regularity of the transactions underlying those accounts. In carrying out these functions, ECA staff visit member states to review management structures, test systems of control and to examine in detail a sample of applications submitted in support of payments to final beneficiaries. When selecting audits, the ECA aims to identify audit subjects that are likely to yield high impact in terms of identifying potential improvements in the economy, efficiency and effectiveness of EU spending.

7.30 Liaison arrangements provide for ECA visits to Ireland to be organised by my Office and all correspondence including the ECA audit findings and management responses are addressed to my Office for transmission to the audited body. Four such visits were carried out in 2009. Following consultation with the certifying authority, the findings are incorporated into the annual report of the ECA.

7.31 For the second consecutive year the ECA gave a positive Statement of Assurance, without qualification, on the reliability of the 2008 accounts⁴⁹. However, for the fifteenth successive year, the ECA did not give a positive Statement of Assurance on the legality and regularity of most categories of EU expenditure. It reported a material level of error⁵⁰ among member states for EU spending categories comprising 53% of expenditure, including the Cohesion and Rural Development categories.

7.32 However, the overall results on the legality and regularity of transactions reflected a detectable improvement in the management of the budget in recent years particularly in the largest policy group, Agriculture and Natural Resources. The ECA concluded that, except for Rural Development, payments in this policy group were in all material respects legal and regular and for the first time it gave a qualified opinion⁵¹ rather than an adverse⁵² one.

⁴⁹ The audit of the 2009 accounts is not yet completed.

⁵⁰ The ECA treats as material an error in excess of 2% of total expenditure in a policy group.

⁵¹ A qualified opinion is given when an unqualified opinion cannot be expressed but the effect of any disagreement or limitation on scope is not so material or pervasive as to require an adverse opinion or a disclaimer of opinion.

⁵² An adverse opinion is given when the level of error in the underlying transactions is material and pervasive, or the accounts are not reliable.

7.33 Overall, the level of irregularity across the EU remains high in some areas and a qualified opinion was given on the policy group, Economic and Financial Affairs, while the ECA gave adverse opinions for three other policy groups which were materially affected by error, although to different levels. One of these was Cohesion Funding which is the second largest policy group and was the area most affected by errors in spending across the EU, with an estimated 11% of claims found to be ineligible.

7.34 The ECA concluded that overall, error rates appear to be decreasing but that the high level of error reported in many situations is a consequence of rules and regulations that are too complex and simplification remains a priority if further significant and sustainable reductions in the level of irregular payments are to be achieved.

Irregularities, Recoveries and Financial Corrections

7.35 Member states are obliged to recover amounts lost as a result of irregularities. Financial corrections⁵³ may be made by the member state based on the nature and gravity of any irregularities discovered and the extent and financial implications of the deficiencies.

7.36 Financial corrections may take the following forms

- Specifically quantified corrections in cases where an irregularity is detected for an individual operation or several individual operations and it is possible to quantify the correction.
- Extrapolated corrections where an irregularity found in a representative sample of transactions can be assumed to have recurred in other operations of the same type.
- Flat rate corrections where individual breaches or systemic irregularities are not in practice quantifiable. Scales of flat rate corrections may vary from 2% to 100% of the assistance depending on the severity of the breach of the regulations.

7.37 Certifying Authorities for the Structural Funds have overall responsibility for processing and reporting financial corrections. Specifically quantified corrections detected by the Audit Authority contribute to Ireland's error rate⁵⁴. The error rate determined by the Audit Authority is set out in its annual control report submitted to the Commission.

7.38 Where any of the above types of financial corrections are made, the Certifying Authority for the Fund may recommend remedial action and the irregularity is reported to the Commission. However, this may not impact on the overall drawdown because a member state can utilise other eligible expenditure. Ineligible expenditure can only be replaced with eligible expenditure before the closure of an Operational Programme⁵⁵ provided there are sufficient excess eligible claims.

7.39 The Department of Agriculture, Fisheries and Food as paying agency for EAGF and EAFRD funds has overall responsibility for processing and reporting financial corrections. As EAGF funding is fully funded by the Commission, amounts recovered as a result of irregularities are paid back to the Commission. The rules on recovery for EAFRD funding concerning the re-use of funds are similar to the treatment of Structural Funds.

⁵³ Articles 98-100 of EU Regulation 1083/2006.

⁵⁴ The error rate is the value of quantified errors detected calculated as a percentage of the transactions sampled as part of the audit.

⁵⁵ Article 98(2) of EU Regulation No. 1083/2006 provides that for the 2007-13 programming period, the resources from funds released as a result of financial corrections may be re-used by the member state until 31 December 2015 for the Operational Programme concerned.

Financial Corrections by the EU Commission

7.40 In the case of Structural Funds, the Commission may make financial corrections⁵⁶ by recovery of amounts paid or by cancelling all or part of the Community contribution where after examination, it concludes that there is a serious deficiency in the management and control system of a programme or ineligible expenditure has been contained in a certified statement of expenditure by the member state and has not been corrected.

7.41 This type of financial correction by the Commission most commonly occurs at the closure process at the end of a programme cycle when the last claims have been submitted by the Certifying Authority at which point it may be difficult to substitute the ineligible expenditure.

7.42 To date, the Commission has made financial corrections totalling €48 million in respect of the Structural Funds. Total Cohesion Funding lost to the Exchequer in the 1994-1999 round of funding amounted to €5.6 million. These corrections occurred in the case of water supply schemes and road projects. In the 2000-2006 round, a further amount of €13.4 million was disallowed⁵⁷.

7.43 The amount lost to Ireland under the 1994-1999 round of funding in respect of the ESF was just over €29 million. €15.6 million of this arose on three programmes – the Human Resource Development Operational Programme, the Tourism Operational Programme and the Industry Operational Programme - as a consequence of a Commission audit decision in 2000, which was confirmed by the European Court of Justice in 2005. In this instance, ESF monies were withheld due to the manner in which Ireland presented ESF claims⁵⁸.

7.44 There have been no financial corrections in respect of ERDF or ESF for the 2000-2006 and the 2007-13 programming periods.

7.45 In the case of Agricultural and Rural Development funds, the Commission takes ad-hoc compliance clearance decisions on the basis of Commission audit findings. The Commission will refuse ineligible expenditure and may apply financial corrections arising from its audit work if it concludes that there are deficiencies in management and control systems.

7.46 Ad-hoc disallowances imposed by the Commission in the period 2000 to 2009 in respect of EAGF expenditure amounted to just under €39 million. The Department of Agriculture, Fisheries and Food received EAGF payments of €16.4 billion in the period. The largest single financial correction related to the year 2000 when just under €20 million was disallowed following two Commission decisions⁵⁹. Based on the Department of Agriculture, Fisheries and Food calculations, Ireland's disallowances in relation to expenditure incurred in the years 1999-2008 inclusive amounted to approximately 0.13% of EU funding. These calculations also indicate a corresponding percentage disallowance of 1.44% for total EU-15 expenditure⁶⁰ over the same period.

⁵⁶ Under Article 99 of EU Regulation 1083/2006.

⁵⁷ This related to disallowances of €8.9 million in respect of works at Heuston Station that were non-Exchequer funded, waste-water treatment in Dublin and the Cloghran-Lissenhall Road Project.

⁵⁸ Due to an assisted non-government organisation that had not declared the total amount of its government funding and to the methodology used by the Department of Enterprise, Trade and Innovation in converting Irish punts to ECUs.

⁵⁹ Commission Decision of 1 March 2000 (2000/216/EC) relating to a correction of €6.4 million for late payments and unsatisfactory control in the Meat Premium sector. A financial correction of €13.4 million was decided on 5 July 2000 (2000/449/EC) in regard to afforestation aid which was not eligible and an insufficient number and quality of on-the-spot checks in the Arable Crop sector.

⁶⁰ EU-15 refers to the 15 member states in the EU prior to the accession of ten candidate countries on 1 May 2004.

Conclusion

Ireland contributed €1.5 billion to the EU budget in 2009 while €1.8 billion was received from EU funds.

The EU Commission has, since 1994, made financial corrections of €48 million to Ireland's ESF and Cohesion Fund receipts. In the case of agricultural and rural development funds, the Department of Agriculture, Fisheries and Food estimate that, between 1999 and 2008, approximately 0.13% of EU funding received by Ireland has been disallowed while the average disallowance across EU-15 was 1.44%.

Ireland, like other member states, has an interest in how the EU budget is used. While the European Court of Auditors noted an improvement in the management of the budget across the EU, they were unable to give positive assurance on the legality and regularity of most elements of EU expenditure. However, the Court has acknowledged that in many instances the errors are as a result of the complexity of the rules.

Annex A Restructuring of the EU Sugar Industry

In 2006, the EU established a restructuring fund (funded by the processors staying within the business of sugar processing) to encourage less efficient sugar processors to exit the market. Ireland's sole sugar processor, Irish Sugar Ltd (Greencore), decided to cease production totally.

The total amount of aid available to Ireland was €145.5 million, and an additional €41 million retroactive restructuring aid⁶¹ giving a total of €186.5 million. Payments were made to three types of beneficiary - the processor, beet growers and machinery contractors. The relevant regulation⁶² allowed for at least 10%⁶³ of the aid to be reserved for beet growers and machinery contractors to compensate them for losses. No minimum level was set for processors.

Compensation to Processor

The total amount allocated to Greencore was €127 million. Greencore was required to submit a restructuring plan to the Department of Agriculture, Fisheries and Food (the Department) for approval. To draw down the payments, Greencore was required to lodge a security of 120% of the amount of the payment in accordance with the EU regulations. The security is subsequently released as progress is made in implementing the plan.

The payments and related security are outlined in Figure 33.

Figure 33 Payments and Security - Greencore

Payment Date	Payment €m	Security Lodged €m
June 2007	43.6	52.4
February 2008	83.4	100.0
Total	127.0	152.4

As implementation of the plan progressed, Greencore submitted annual progress reports and the Department verified these by means of site visits and then produced annual inspection reports.

The security for the June 2007 payment was released in full in February 2008 on foot of the Department's first annual inspection report. Partial release of the second security was granted in 2008 and 2009 but the Department is withholding €9.6 million pending satisfactory completion of the restructuring plan.

⁶¹ Council Regulation 1261/2007 provided for additional payments and these were made available retrospectively to growers who exited the market in 2006 and 2007.

⁶² Council Regulation 320/2006.

⁶³ Amended in October 2007, where it set a maximum amount of 10% to be allocated to the growers.

Beet Growers

Growers who had delivered beet to Greencore in any of the three reference years (2001, 2002 and 2004) were eligible for aid. The Department decided to pay all aid to growers on the basis of the contracted amount of sugar beet and not the amount of beet delivered.

The Department, based on information supplied by Greencore, established a database of 3,779 farmers who had held a sugar beet contract with Greencore during at least one of the reference years.

The Department checked the information supplied for accuracy by taking a random sample of 5-7% of contracts in both the Carlow and Mallow plants and checking the information supplied by Greencore against delivery dockets, contracts and weighbridge records⁶⁴. The Department wrote to each beet grower advising of the specified contract tonnage. Growers were requested to contact the Department with any queries or corrections. No responses were received. The payments to each grower were then based on this information. As a result of the Department's examination of the database, 3,515 beet growers were found to be eligible to participate in the scheme.

In order to calculate the amount of aid payable to each grower, the Department divided the total number of tonnes contracted for all growers by the amount of aid available to get a rate per tonne. This rate was then applied to the contract amount for each grower.

Four types of payments were made to beet growers

- restructuring aid – payments to incentivise exit from the industry
- diversification aid under Article 6 of Council Regulation 320/2006 – compensation payable to growers to meet the costs of diversifying
- diversification aid under Article 7 of Council Regulation 320/2006 – additional aid available as the amount of each member state's sugar quota was renounced
- retroactive restructuring aid – additional payments to those growers that ceased production, applied retroactively to growers that exited the industry in 2006 and 2007.

Diversification aid was made available to beet growers as a contribution to the cost of diversifying into other activities. In accordance with the EU regulations, it was paid in two equal instalments - in September 2007 and March 2008. The allocation of the diversification aid was completed in the same manner as the restructuring aid.

Growers who received restructuring aid were eligible and were required to complete a form indicating that they intended to diversify and stating what the diversification entailed. According to the Department's records, 11 of the 3,515 growers did not return the diversification form.

Details of payments to beet growers are set out in Figure 34.

⁶⁴ This was a reasonableness check on the contracted amounts.

Figure 34 Payments of Restructuring Aid to Beet Growers

Payment Type	Budget €m	Spent to Date €m	% Spent
Restructuring Aid	12.35	12.28	99.43%
Diversification Aid (Article 6)	21.82	21.42	98.16%
Diversification Aid (Article 7)	21.82	21.77	99.78%
Retroactive Restructuring Aid	41.33	40.81	98.74%
Total	97.32	96.28	98.93%

Machinery Contractors

As machinery for sugar beet farming is specialised and is not transferable to other areas of farming, €6 million of the restructuring aid was made available to compensate machinery contractors. The EU regulations required that 40% of the aid be paid in June 2007 and the remainder in February 2008.

The Department identified five types of machine that could be classified as specialised beet machinery⁶⁵ and eligible for compensation. Applications were made by the machinery contractors for compensation on standard application forms providing personal information and information about the machine being claimed for. In order to be eligible for aid, all applicants had to have used the specialised beet machinery for beet sowing, cultivation or harvesting work during the beet campaign of 2004.

Field inspections were completed to verify the accuracy of the information provided. 123 of the 384 valid applications were inspected. These resulted in reduced payments in seven cases where incorrect information was provided on the application form or where the machine was disposed of.

A total of €5.9 million was paid to 384 contractors. The average grant paid was €15,384. 70% of the contractors received €5,000 or less. Some 5% of the contractors received €50,000 or more, with seven contractors receiving in excess of €70,000 (€99,966 was the largest amount paid out to any one contractor).

Administrative Matters

Overpayments

Overpayments of €26,454 were made by the Department to machinery contractors. At April 2010, overpayments of €16,223 had been repaid by cheque or recouped by offsetting against other payments due from the Department. The overpayments were as a result of either an administrative error where the Department calculated an incorrect amount of aid or an irregularity, where the applicant gave incorrect information.

There was one overpayment, since recouped, to a grower where the aid was paid on the basis of his unique ID number as opposed to the contracted tonnage. There were also a number of

⁶⁵ Harvester, seeder, inter-row cultivator, cleaner loader and beet basket.

incorrect payments made as a result of merged or inheritance cases as well as cases where duplicate payment forms were sent for processing.

Outstanding Liabilities

All amounts due have not been paid to growers. The maximum residual liability for unpaid amounts is just over €1 million. However, the Department estimates that the final amount payable will only be a fraction of this. As the deadline for funding by the EU was July 2009, any further payments to the growers will have to be met from Exchequer funding.

European Court of Auditors

The European Court of Auditors expect that a report on the Sugar Restructuring Scheme across the EU will be published in November 2010.