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European Committee B

EU GENERAL BUDGETS FOR 2015 AND 2016

Monday 14 September 2015

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The Committee consisted of the following Members:

Chair: Mr Charles Walker

† Burns, Conor *(Bournemouth West)* (Con)
Coffey, Ann *(Stockport)* (Lab)
† Dakin, Nic *(Scunthorpe)* (Lab)
Davies, Geraint *(Swansea West)* (Lab/Co-op)
† Drax, Richard *(South Dorset)* (Con)
† Gauke, Mr David *(Financial Secretary to the Treasury)*
Grant, Peter *(Glenrothes)* (SNP)
Hopkins, Kelvin *(Luton North)* (Lab)
† Huddleston, Nigel *(Mid Worcestershire)* (Con)
† Keeley, Barbara *(Worsley and Eccles South)* (Lab)
† Rees-Mogg, Mr Jacob *(North East Somerset)* (Con)
† Stride, Mel *(Lord Commissioner of Her Majesty's Treasury)*
† Warburton, David *(Somerton and Frome)* (Con)

Fergus Reid, *Committee Clerk*

† attended the Committee

European Committee B

Monday 14 September 2015

[MR CHARLES WALKER *in the Chair*]

EU General Budgets for 2015 and 2016

4.30 pm

The Chair: Does a member of the European Scrutiny Committee wish to make a brief explanatory statement about the decision to refer the relevant documents to the Committee? Mr Rees-Mogg, do you wish to speak?

Mr Jacob Rees-Mogg (North East Somerset) (Con) *indicated dissent.*

The Chair: No. I have on my notes "likely to be Jacob Rees-Mogg". As we have an outbreak of good humour, I call the Minister to make the opening statement. You have no more than 10 minutes, Minister.

4.30 pm

The Financial Secretary to the Treasury (Mr David Gauke): It is a great pleasure to serve under your chairmanship, Mr Walker. An outbreak of good humour is only to be expected in the circumstances.

I thank Members for their attendance at this debate and for providing the opportunity for me to present the Government's position on the EU budget. As members of the Committee will be aware, we remain in the midst of one of the biggest debt crises to have hit Europe. In response, this Government, like other Governments across the EU, have taken the difficult but necessary decision to consolidate our public finances and implement structural reforms. We have been clear that the EU budget, which is funded by EU taxpayers, cannot be immune to reform. The Government have delivered on this in Brussels, not least through the multi-annual financial framework deal secured by the Prime Minister in 2013.

In the 2005 MFF negotiation under the Labour Government, the UK's rebate came under attack, as it so often does in Europe. Under pressure, the previous Government folded. This cost British taxpayers more than €9 billion over the 2007-13 period. By contrast, in the 2013 MFF deal, the Prime Minister protected our rebate, and also prevented new EU-wide taxes to finance EU spending. The Prime Minister's deal did not only mean a smaller EU budget; it meant an EU budget that was better focused on areas that are important for the UK.

Within the smaller overall MFF, expenditure has been reorientated towards areas that provide higher value for money to the British taxpayer: namely, high-value research and development, universities and other pro-growth investment. Last year's annual budget negotiations were trying, but I am pleased to tell the House that the current proposal from the Commission for the 2016 annual budget is consistent with the MFF annual ceilings. The Commission proposed €143.5 billion in payments and €153.8 billion in commitments, with the recently agreed European fund for strategic investments deal, which is below the annual MFF ceilings by €1.2 billion on payments and €2.1 billion on commitments, making it a more reasonable proposal than those of the past two years. The cash increase of 1.6% is smaller than previous year-on-year increases, showing the impact of the MFF deal. Nevertheless, the UK, along with like-minded states, has continued to push for savings in order to reduce waste and inefficiency.

On 4 September, the Council unanimously agreed its position on the Commission's proposal on the draft budget. The Council cut the Commission's proposal by approximately €1.4 billion in payments and €0.6 billion in commitments so that both commitments and payments are €2.6 billion below the annual MFF ceilings. The UK received full support from our usual budget disciplinarian allies—Austria, Denmark, Finland, France, Germany, Sweden and the Netherlands—in achieving these cuts to the Commission's proposal.

The Government supported this deal because we judged that it reflected the need for fiscal discipline while preserving funding to key areas supporting jobs and growth, and responding to external pressures. For example, the Council position increases funding compared to last year for Horizon 2020 by 9% for research and development, and increases pro-growth spend overall under heading 1a by 9%, while the external aid budget under heading 4 has increased by 22%, enabling the union to respond more effectively to external pressures. As negotiations on the final deal continue with the European Parliament in the autumn, the Government will continue to work closely with our allies in Council to ensure the best possible deal for UK taxpayers.

As well as the Commission's draft budget 2016, a number of related documents have been held for debate. I shall now address them in turn. The mobilisation of the EU solidarity fund is a separate document alongside the draft 2016 budget, which proposes the sum of €50 million, or £35.6 million, in commitment and payment appropriations in the 2016 budget to provide a reserve for rapid disbursement of funds to member states before more substantive support is agreed. The Commission included that amount in the draft 2015 budget and it is a requirement of the EU solidarity fund regulation as amended in May last year.

We are supportive of the principles of the EU solidarity fund in providing support when an EU country is seriously affected by a major natural disaster. Natural disasters, which in most cases cannot be foreseen, bring new pressures to bear on the EU budget. However, we do not believe that new pressures should necessarily lead to requests for new money from member states, which is why we consistently press the Commission to identify possibilities for reallocation within existing budgets, when mobilising the EU solidarity fund for substantive support to member states, before requesting additional funds. Indeed, that reflects the inter-institutional agreement on budgetary discipline of December 2013, which requires the Commission to take into account the scope for reallocations to fund EU solidarity fund applications.

A proposal to mobilise the flexibility instrument was also appended to the draft budget. The instrument exists to allow the financing of expenditure that cannot be covered within the ceiling limits of an area of the budget. In the 2016 budget, heading 3 was short on commitment appropriations due to pressures arising from the migration crisis. As the Committee is aware, the Prime Minister has expressed support for EU-wide action to tackle the migration crisis and, in this case, the flexibility instrument provides a means of meeting those emergency funding requirements. Moreover, the proposed commitments budget for 2016 is more than sufficient comfortably to meet such funding requirements without incurring any breach of annual or global multi-annual financial framework ceilings.

That recognition of the need for the EU budget to respond to new pressures does not change our commitment to ensure overall financial discipline and respect for the MFF limits. As with the EU solidarity fund, we continue to urge the Commission to seek reallocations from areas of lesser priority when new pressures emerge. The Prime Minister has clearly set out that special instruments spending exists in the EU budget specifically to respond to new events, and that it is important to control that as well.

After releasing the 2016 draft budget proposal, the Commission issued an amending letter to the proposal to reflect agreement reached in June on the financing of the European fund for strategic investments, a guarantee fund to help plug the current investment gap in the EU by mobilising private financing for strategic investments. The Government supported the EFSI agreement as a way to raise growth prospects throughout Europe while being fully consistent with the MFF deal.

The Government also welcomed the protection of specific research programmes within Horizon 2020, including the Marie Sklodowska-Curie actions programme and the spreading excellence and widening participation programme, as part of the agreement reached on EFSI. The amending letter, which has now been incorporated into the Council's position on the draft budget, increases the commitment appropriations available to Horizon 2020 and the connecting Europe facility by around €153 million and €150 million respectively, resulting in an overall increase in commitment appropriations in the 2016 budget by €303 million.

As for the 2015 budget, the Commission has issued a number of draft amending budgets, which have all been adopted in Europe, except the latest, DAB 6. In line with the routine annual practice, it provides for a revision in the forecast of member state contributions to the EU budget to reflect the latest economic data and forecasts provided and agreed by member states in March every year. The changes in that DAB were already anticipated in the Office for Budget Responsibility's most recent forecast in July.

DAB 6 is important because it contains the rebate that we will receive on the 2014 surcharge payment. It confirms that we will receive the rebate in the same year as our making the surcharge payment, rather than with a year's lag. It also sets out that we will receive a rebate that is higher than estimated by the Commission last autumn, so the total net surcharge payment from the UK to the EU will be under £0.8 billion, less than half of the original bill of £1.7 billion.

As we enter the final few months of negotiations on the annual budget, we face the usual challenges that we have come to expect from Brussels. The European Parliament will agree its final position on the budget on 28 October. I can confidently predict that it will seek to increase significantly the Commission's proposal and leave a much-reduced margin below the annual MFF ceiling. I can equally confidently predict that many member states—in particular, net recipient member states—will support that.

Despite those challenges, we remain fully committed to obtaining the best deal for the UK and the British taxpayer. Our objective is an agreement for 2016 that supports the delivery of the Prime Minister's MFF and achieves the greatest possible amount of restraint in the framework. This is a negotiation and the outcome will ultimately be decided by a qualified majority in the Council, which is why working closely with our like-minded allies, as we have done successfully to date, is so important.

Today the Committee has the opportunity to present a united front in favour of restraint in the annual budget from 2016 and to give the Government a strong mandate to continue to work with like-minded member states in pressing for necessary restraint and discipline in the budget negotiations this autumn in order to get the best deal for UK taxpayers.

The Chair: We now have until 5.30 pm for questions to the Minister. May I remind Members that these should be brief? It is open to a Member, subject to my discretion, to ask related, supplementary questions.

Barbara Keeley (Worsley and Eccles South) (Lab): Thank you, Mr Walker. It is a pleasure to speak in this Committee, the first time that I have done so with you in the Chair. May I thank you for chairing our proceedings today? I hope it is helpful if I group my questions.

First, on the draft decision about the use of the EU solidarity fund in 2016 for financial assistance to eligible states affected by major national disasters or extraordinary regional disasters, the terrible floods experienced by Romania, Bulgaria and Italy in 2014 caused extensive damage to the economic and productive sectors in many towns and cities in those countries. The UK was a beneficiary of the solidarity fund after the 2007 floods; I am sure Members remember those floods and the difficulties they caused for many constituents. We received £127 million to help with their aftermath.

I agree and have constantly said in debates on these matters that there is a need for budgetary restraint and reform in the EU budget. I spoke strongly about that in the debate on the European Union (Finance) Bill. Will the Minister make his position on the solidarity fund clearer? Will he accept the need to help countries that have experienced significant problems owing to flooding? Will he agree to such mechanisms being used in a similar way in the future, or does he think that, for us to achieve budgetary restraint, we have to reform the way those instruments work?

Secondly, what plans do the Government have to ensure that this annual budget and future EU budgets are controlled and that funding is prioritised on interventions to encourage jobs and growth throughout the EU and in the UK? Today's documents raise again some of the issues that I raised in the European Union (Finance) Bill. Funding for the common agricultural policy is still high and not being diverted to more useful programmes such as the European fund for strategic investments. Other budget amendments have pushed the budgets further into the margins, which again raises my question of whether the gap between commitment and payment appropriations is manageable and whether

[Barbara Keeley]

it is the most efficient way to ensure budgetary restraint. We had quite a debate on that when discussing the Bill. What plans does the Minister have to ensure wider reform of the EU budget?

Finally, I would like to ask the Minister about the UK's response to migratory pressures in Italy and Greece. In document 11, his follow-up letter to the Chair of the European Scrutiny Committee, the hon. Member for Stone (Sir William Cash), on draft amending budget 5, responding to those migratory pressures, he outlined more details and he has said more on that today. In the letter, he said that the funding provided for in this DAB supported a range of measures to support the management of migration flows, none of which directly funded the Commission's proposed schemes for relocation to other member states of 40,000 migrants arriving in Italy and Greece or the resettlement of 20,000 refugees from those countries. Will he confirm whether, in line with the European announcement, the project will include resettlement to other European member states? Does he agree that, contrary to the comments he made in the letter, that does appear to constitute direct funding for the relocation of some of the migrants arriving in Italy and Greece?

Labour Members in the UK Parliament and European Parliament have called for a joint approach to help cope with the increasing number of refugees. The Government have stated that they will not participate in a proposed mandatory EU programme to resettle migrants rescued when trying to cross the Mediterranean to Europe. Now that European leaders have voted against a quota system for relocation, something with which the Government did not agree, are there plans to engage further in the European effort to solve the migrant crisis? What future financial support are the Government willing to mobilise to help the UK and other EU countries deal with those migratory pressures, which are the consequence of unrest in the middle east?

Mr Gauke: May I put it on record that I am grateful to see the hon. Member for Worsley and Eccles South in her place? I hope we can continue to debate this and other matters in future. I am also delighted to see the hon. Member for Scunthorpe in his place, and I hope we will continue to debate Treasury matters.

First, in terms of our position on the EU solidarity fund, the Government support the objectives and principles of the fund in providing assistance to member states affected by serious natural disasters. However, the Government also take the view that the Commission should always look first to reallocate funds from within existing agreed budgets to meet in-year pressures, rather than coming to member states to request additional money. Past examples show that the Commission is able to find reallocations—for example, when programmes are delayed or take-up is slower than expected.

In terms of the budget more widely and the need to prioritise areas relating to jobs and growth, the Government's record is clear. As I made clear in my opening remarks, the best way to put pressure on inefficient spending is to cap the overall expenditure. The deal negotiated by the Prime Minister in February 2013 was the first real-terms reduction in the EU budget, and such budgetary restraint is very important. As the Prime Minister said at the time, EU spending reform is a long-term project, but the deal that he secured represents important progress, including on common agricultural policy expenditure. While spending on CAP was cut by 13%, spending on areas of pro-growth expenditure increased and now accounts for 13% rather than 9% of the overall budget.

It is also worth mentioning wider budgetary reform. The UK welcomes the objectives of Vice-President Georgieva's "budget for results" initiative, which aims to develop a more performance-orientated budget that delivers tangible results for EU citizens. We are working closely with the Commission on that and see it as an important opportunity to help improve the value and efficiency of EU spending and to increase transparency about it for taxpayers. The Chancellor made our position clear at ECOFIN earlier in the year. We have held discussions with the Commission and offered technical assistance, and we are keen to drive this agenda forward.

On migration funding and our response to the crisis, the UK is of the view that a great impact can be made in conflict regions, which is why we are the second largest bilateral donor to the Syrian relief effort. We will continue with our significant efforts to ease the burden on front-line member states by providing practical, on-the-ground support. In line with the Prime Minister's announcements, we will also take forward plans to resettle up to 20,000 Syrian refugees over the course of this Parliament.

With regard to funding of Frontex, to which we contribute not via the EU budget but through a separate bilateral contribution, we will match increased EU funding as proposed under draft amended budget 5. I hope those points are helpful to the Committee, and I will be happy to answer any further questions.

Mr Jacob Rees-Mogg (North East Somerset) (Con): May I say, Mr Walker, what a great pleasure it is to serve under your chairmanship for the first occasion in this Parliament? I did so many times in the previous Parliament when you were chairing, with great élan, the Procedure Committee.

To begin with, what are the Minister's expectations for our rebate? It has gone up this year, which is good news, but last year we obviously had the problem of suddenly discovering that we owed the EU a great deal more money. Does he think that that will be a recurring problem or will the good news on the rebate be the more important part?

Mr Gauke: In terms of the rebate and the surcharge, which, as my hon. Friend rightly pointed out, emerged last year, the first point is that he is right that the rebate has increased. The effect of that is that the net additional contribution, as a consequence of revisions to our gross national income, has fallen by something in the region of €100 million. It is worth saying that the draft amending budget before us confirms this; that is an important point. On the wider question of whether we are likely to see any repeat of what happened last year, it is worth remembering the negotiation achievements that were reached last year by the Chancellor of the Exchequer, ensuring that no country is bounced into having an additional liability in the way that occurred last time.

When it comes to the revisions of GNI that have an impact on the calculation of contributions of member states, as far as the UK—or, indeed, any member state—is concerned, until all revisions have been done by all member states, it is not possible to make an assessment of precisely what additional sum is likely to be made.

Finally on this topic, let me make it perfectly clear that under this Government the UK rebate is safe. The rebate will continue to be calculated on an unchanged basis. There was no change to the formula and no change to the types of EU expenditure that we get a rebate on. The UK abatement remains fully justified due to continuing expenditure distortions in the EU budget; it is simply a matter of fairness. In terms of the surcharge issue, which is a separate but related one, we cannot yet say whether the UK will make a payment or receive a repayment from the EU later in the year until all calculations have been completed.

Mr Rees-Mogg: The Minister said that the external aid budget will go up by 22%. Do our contributions to it that go through the European Union but are not co-funding operations with the European Union count towards our 0.7% target for overseas aid?

Mr Gauke: Perhaps the safest thing I could do is write to the Committee.

Mr Rees-Mogg: I do have another question, and the Minister might get inspiration.

Mr Gauke: I may get inspiration on that point and I am always anxious to hear subsequent questions from my hon. Friend.

Mr Rees-Mogg: Very often in these European debates on the budget, we look at the smaller issues, but subheadings 1 and 2—economic, social and territorial cohesion, and sustainable growth and natural resources—cover about €111 billion of expenditure. Those terms seem to be vague and woolly. Will the Minister give us some more guidance as to where the money really goes? What is economic, social and territorial cohesion, other than building a fence in Hungary? What is sustainable growth and natural resources? I do not think that we are not doing a lot of mining in the European Union.

Mr Gauke: On my hon. Friend's previous question, I can confirm that the contribution to the EU budget that is spent on overseas aid is included in our 0.7% official development assistance target. I am pleased to be able to provide that clarification.

My hon. Friend makes a wider point about the vagueness of the definitions, but that is perhaps not unique to the European Union. Whether descriptions relate to UK expenditure or various UN conventions and expenditure, they are not always as clear as they might be. There have been issues in trying to explain to the general public how we spend money within the UK, and such terms can be a little vague. I support my hon. Friend's enthusiasm for greater transparency in this area. The Government introduced UK taxpayers to tax summaries setting out where expenditure goes so that they can be better informed about how public money is spent.

On the EU budget headings, my hon. Friend referred to sustainable growth. This includes common agricultural policy pillar two spending, which focuses on rural development that is environmentally sustainable. That is part of heading 2 spend. The EU budget spend contributes to financing through various programmes. For example, Horizon 2020, which I touched on earlier, is perhaps one of the less controversial areas of EU expenditure, as are cohesion funds for sustainable development within the EU.

I hope that I have provided some information for my hon. Friend about the relevant headings, but if he would like more, I am happy to set that out.

The Chair: Mr Rees-Mogg, are you content? If no more Members have questions, we will proceed to the debate on the motion.

Motion made, and Question proposed,

That the Committee takes note of the European Union Documents No. 9404/15, Draft Decision on mobilisation of the EU Solidarity Fund to provide for payment of advances in the 2016 Budget; No. SEC(15) 240, Statement of Estimates of the Commission for 2016 (Preparation of the 2016 Budget): Political Presentation; No. SEC(15) 240 Statement of Estimates of the Commission for 2016 (Preparation of the 2016 Budget): Financial programming 2017-2020 (Provisional figures); No. 9403/15 Draft Decision on the mobilisation of the Flexibility Instrument for the provisional measures in the area of international protection for the benefit of Italy and Greece; No. 10343/1/15 Letter of amendment No 1 to the draft general budget 2016: Financing of the EFSI Guarantee Fund; No. COM(15)351 Draft Amending Budget No. 6 to the General Budget 2015; supports the Government's efforts to limit the size of the EU Budget, including use of the EU Solidarity Fund and Flexibility Instrument, in order to get the best deal for UK taxpayers at a time of tight constraints on domestic public spending; welcomes the fact that the 2016 Draft Budget respects the Multi-Annual Financial Framework agreement secured by the Prime Minister in 2013, which delivers an unprecedented real-terms reduction compared with the 2007-2013 period while protecting the UK rebate; notes that the 2016 Draft Budget achieves an increased payments and commitments margin compared to 2015 and that the Amending Letter No. 1 updates the 2016 Draft Budget to reflect strong political agreement on the Regulation on the European Fund for Strategic Investments which the UK supported as a mechanism to boost jobs and growth in the UK and Europe; and further notes that the Draft Amending Budget 6 concerns a routine adjustment of revenue calculations and welcomes that it provides for the payment of the rebate on the 2014 EU budget surcharge that was secured last autumn.—*(Mr Gauke.)*

4.57 pm

Barbara Keeley: I thank the Minister for his answers. It was interesting that the hon. Member for North East Somerset made an appropriate point about the vagueness of definitions in an 88-page document and the various other attachments. What we are debating is probably as clear as the proverbial mud to many people outside the room, so perhaps we can add a little clarity.

I have made this point before: the Opposition believe—we must keep insisting on this—that the European Commission should try to make decisions surrounding the budget much more accessible to citizens. The material is dense and, even for a short debate such as this, it is hard to understand what is being said. The Commission should start to understand how to give more and better information about the budget and the budget process, and I am sure that the Minister, who has to plough through all these things, agrees. Transparency is a key factor, so I was glad that the hon. Member for North East Somerset talked about that.

I want to cover several more points, just for emphasis. A lot of this is uncontentious, albeit not all. As I have said, we welcome the fact that the draft budget states that its primary objective is to

"provide a new boost for jobs, growth and investment".

[Barbara Keeley]

We welcome the overall increase in the fund for competitiveness for growth and jobs of 11.4% for 2016 compared with 2015. However, there have been decreases in funding for large infrastructure projects and, at a much greater rate, for energy projects to aid economic recovery. We should encourage a focus on green energy and investment.

Funding for economic, social and territorial cohesion has received a small overall increase, although both the cohesion fund and the European territorial co-operation fund have decreased. That heading has been the subject of an extensive reprogramming exercise and the margin left beneath the ceiling is now very tight, with only £11 million of difference. We will continue to press the Government to ensure that significant changes to and reallocations of funding are made on the basis that they are likely to increase value for money for the UK taxpayer.

We welcome the continued decline in agriculture spending as a share of the European budget—as I have said, it will drop from 41% of EU commitments in 2014 to 35% in 2020—but the wider reform of the common agricultural policy that is needed has still not taken place. The UK Government should push for such reform in future negotiations. Deductions are being made to sustainable growth and natural resource funding, but they involve funds for which reform is less of a priority. For example, the European agricultural fund has decreased by 24.9%, whereas market-related expenditure and direct payments have decreased by only 1.4%.

We welcome the increased focus on dealing with the refugee crisis. Draft amending budget No. 5 was intended to support the EU relocation and resettlement schemes. As the Minister mentioned, the money has been used to reinforce Frontex, to provide emergency assistance after the first arrival and screening of migrants, to reinforce the regional development and protection programmes for north Africa and the horn of Africa, and to cover emergency assistance for the surveillance activities carried out in the context of Frontex operations.

In addition, €25 million was used to implement a voluntary pilot project on resettlement. To refer back to my question, a European announcement on 13 May suggest that that project would include resettlement in European member states. Labour welcomes the use of the flexibility instrument to help to alleviate the migrant crisis, but we encourage the UK Government to engage with the rest of Europe and other affected countries to find a sustainable way of funding a response to this increasingly serious situation. Frankly, we must have something more sustainable than what is in place today. It was disappointing that many Conservative and UKIP MEPs voted on 9 September against legislation calling for a unified response to the relocation of 40,000 asylum seekers from Italy and Greece. Labour Members and MEPs have called for a joint approach to help to cope with the increasing numbers of refugees. My colleague, Claude Moraes MEP, chair of the European Parliament's civil liberties, justice and home affairs committee, said:

> "We need a long-term solution, with Britain opting into a comprehensive EU plan to tackle a crisis which is likely to go on for some time and will require solidarity on refugees and measures to halt people-smuggling and the root causes."

I believe that this is a Treasury issue as well as a Home Office one, and I hope that the UK Government engage with the EU to provide an adequate response to the crisis.

Along with our European counterparts, Labour Members fully support the letter of draft amending budget No. 1, which helps to create the budget structure necessary for the provision and creation of the European fund for strategic investments. We believe that such funding should be a priority for the EU. It will help to target areas for growth, including infrastructure in the transport, energy, digital, environment, urban and social sectors. Other areas of focus will be education and training, health, research and development, and support for small and medium-sized enterprises. It is unfortunate that the money redirected to that fund is from funding already set aside to increase competitiveness for growth and employment. We should not be in that either/or situation. Money is being shifted from the Connecting Europe Facility to fund the European fund for strategic development. That means that money to improve cross-border rail and operability, sustainable and efficient transport, and the connectivity of transport modes has been more than halved. However, there is a new budget allowance for encouraging private investment for transport infrastructure projects. The Minister mentioned the redeployment of funds from Horizon 2020.

I want to leave the Minister with a question, although I do not know whether he will have time to answer it today. Have the Government made any assessment of whether the shifting of the funds will provide better value for the UK taxpayer? I understand that the measure uses unallocated margins, but that goes to the question of the manageability of the gap between authorised commitments and authorised payments. I spoke about that a great deal in our debates on the European Union (Finance) Act 2015, so I will not rehearse the arguments again today.

5.4 pm

Mr Rees-Mogg: My initial point is that we should always remember that when the EU budget talks about "own resources", it means our money, which was the point that Margaret Thatcher made so forcefully all those years ago to get our money back. The EU does not, in fact, have any of its own resources. It has money that it squeezes out of the British taxpayer, and it gives us a little bit back in return, but it does not have its own resources.

I am concerned about the size of the budget that is spent on things about which we know very little, except the common agricultural policy, which I fear is used to subsidise inefficient continental farmers and damages the interests of our farmers, because it is biased in favour of small, inefficient farming units whereas so many of our farmers have consolidated. That is a particular problem when dairy prices are so low because our farms, have become much more efficient, in many cases quite painfully.

My neighbour, my hon. Friend the Member for Somerton and Frome, and I have large rural constituencies with a lot of dairy farmers who suffer because the CAP is focused away from British farmers to less efficient farmers—and we pay for it. That seems to be the worst of all possible worlds. It will, as the hon. Member for Worsley and Eccles South said, go down to representing 35% of the EU budget, but that is still an enormous amount to be paying in agricultural subsidies. If we look at the experience of New Zealand and how competitive it has become after weaning itself off subsidies, the lesson is quite clear. We want efficient, larger farming units that are able to compete globally, not to have the principles of the 1960s applying to farming.

It is also difficult to know where the money is going, which was why I asked the Minister about the €110-odd billion in the main parts of the budget. We often argue about the rise in administrative expenses. They are important, but they are 6% of the budget, and that 6% of the budget ought to be reduced. An administrative cost of 6% is pretty high in the context of other Administrations but if we save money there, we are talking about hundreds of millions, whereas if we save money in the major part of what the EU is doing, we can talk about saving billions. It really is a question of going through this line by line and seeing whether the money is being spent reasonably.

Perhaps Parliament does not take the whole issue of European spending seriously enough because we hand the money over and that is it, whereas we spend four days debating the UK Budget, as well as the autumn statement and so on. However, we are having a two-hour debate with not many participants on a quiet Monday afternoon in which we are discussing the very large European budget, the inefficiencies that go with that, and the aspects of the spending that may not be in the British national interest.

I am fully supportive of what the Government have done on the MFF—it was an absolute triumph. I did not think that it would be possible to get the European budget cut. It worries me that outside the MFF, the process is subject to qualified majority voting, so our ability to limit things is seriously curtailed and, as the Minister suggested, we have to find allies in like-minded countries that do not want spending to go up. The question is whether the use of this money is wasteful and in the British national interest. The reminder is, as always, that this is our money—our taxpayers' money.

5.8 pm

Mr Gauke: May I thank the hon. Member for Worsley and Eccles South and my hon. Friend the Member for North East Somerset for their contributions? I thank other Members for attending today's proceedings and, indeed, members of the European Scrutiny Committee for selecting the documents for debate.

EU budget negotiations are a challenging process, but I am pleased to say that the initial Commission proposal was more reasonable than in previous years, as I pointed out earlier. That shows the effect that the Prime Minister's deal is having in bearing down on spending. The Government, working closely with our like-minded allies, have been successful in achieving further savings by cutting the Commission proposal by approximately €1.4 billion in payments and €0.6 billion in commitments, meaning that both commitments and payments are €2.6 billion below the annual MFF ceilings.

As I turn to the issues raised in the debate, I must note that there has been a degree of cross-party unity, which is an attribute that we might not often see in the next few months. I agree with the essence of the point about the transparency of spending that was raised by the hon. Lady and my hon. Friend. It is worth pointing out that Vice-President Georgieva's budget for results initiative aims to increase budget transparency to EU citizens and, as I mentioned in my earlier remarks, we are keen to support her in that process. The widespread use of open data to provide more information to the public can help that, but for public spending in general, and spending by EU institutions in particular, the case for greater transparency is strong indeed.

We reduced CAP spend in the previous MFF. CAP reform is a long-term project and we continue to work with allies to achieve maximum value for money. It is worth pointing out that there has been modest redistribution of direct payments in recent years. Generally, the pattern of direct payment receipts by member states is a function of patterns of production, in particular in the production of commodities for which compensation rates are highest. We continue to argue for CAP reform and we have succeeded in reducing CAP spend by 13% in this MFF.

We agree that it is disappointing that administrative costs remain high. My hon. Friend was right to say that those costs are 6%, which are higher than they should be. We continue to hold the institutions to their commitment to reduce staff headcount by 5% a year.

The hon. Lady touched on the EFSI, which we voted in favour of because we judged that it was an effective way to leverage private financing for growth, including infrastructure. Those funds will be allocated through a competitive process. Funding needed to be found within the limits of the MFF and, in such circumstances, that is a reasonable approach.

On migration, the UK will not participate in relocation because we believe that it fails to address the cause of the problems—it will act as a pull factor to the EU and simply move the problem around Europe. A greater impact can be made in conflict regions, which is why we are the second largest bilateral donor to the Syrian relief effort. We will continue our significant efforts to ease the burden on front-line member states by providing practical, on-the-ground support. In the past three years, the UK has contributed more resource to support missions run by the European Asylum Support Office than any other member state, with more than 1,000 expert working days contributed in deployments to Greece, Italy, Bulgaria and Cyprus.

The Government will continue to champion the need for an efficient EU budget that provides good value for the UK taxpayer and firmly press to ensure fiscal discipline by limiting the budget size to deliver the Prime Minister's MFF deal. In doing so, we will work with like-minded allies to deliver the best EU budget deal possible within the negotiation's parameters. We continue to take difficult decisions to deal with deficits domestically, and such budget discipline is also needed at an EU level. We will, of course, keep members of the Committee updated as appropriate and I welcome their continued interest in this important issue.

Question put and agreed to.

5.15 pm

Committee rose.