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Exiting the EU: The financial settlement

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The Committee of Public Accounts

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Summary

Overseeing the UK's withdrawal from the European Union is one of the biggest challenges that has faced any government. The cost to the UK of leaving remains uncertain because it depends on future events, such as the UK's economic growth. There is a risk that the amount the UK actually pays will fall outside the narrow range estimated by the Treasury of £35 billion to £39 billion. The Treasury's estimate does not include at least £10 billion of costs to the government on leaving the European Union associated with the settlement deal, including nearly £3 billion of contributions towards the European Development Fund. It also does not include potentially significant costs associated with the UK's future relationship with the EU. The taxpayer could continue to make payments for years to come.

As new information becomes available the estimated value of the settlement may change. To have a meaningful Parliamentary vote on a withdrawal agreement later in 2018, Parliament and the taxpayer require an up-to-date estimate of the settlement's costs, as well as better information on the wider potential costs of withdrawal. Without this, MPs and the taxpayer will not have complete information about the potential costs of the government's deal with the EU. There is much talk of an EU dividend but our work has highlighted a number of as yet uncertain costs. Any dividend will be hard to calculate and, if it materialises, is some years away.

Introduction

The government is negotiating the terms of the UK's withdrawal with the European Union (the EU). As part of this, the government intends to agree what the UK will pay towards the financial commitments and liabilities the EU entered into when the UK was a member state, known as the financial settlement. This will be part of the withdrawal agreement, alongside citizens' rights and the impact on the Northern Ireland border. The government has stated that it aims for the settlement to be fair and in accordance with the law and spirit of a continuing partnership with the EU.

HM Treasury (the Treasury), on behalf of the UK government, has been leading negotiations with the European Commission (the Commission) on the financial settlement. In December 2017, the government and the Commission published a joint report on the progress of negotiations on the UK's withdrawal. This set out the principles they had agreed would underpin the financial settlement. In January 2018, the Treasury estimated that the value of the financial settlement would be between £35 billion and £39 billion. In March 2018, the government and the Commission set out further details on how the settlement will be calculated and paid, in a draft of the withdrawal agreement. Parliament will vote on the finalised withdrawal agreement, including the terms of the financial settlement, and a framework for the UK's future relationship with the EU, in late 2018. The UK will then leave the EU on 29 March 2019. This is the Committee's first examination of the financial settlement, which we will continue to watch closely.

Conclusions and recommendations

1. **The exact value of the financial settlement agreed between the UK and EU remains uncertain.** The Treasury has reached agreement with the EU on how a settlement will be calculated that will see the UK honour commitments it has made while it was a member state. Based on published data, the Treasury estimates the settlement will cost the UK between £35 billion and £39 billion. However, there are a number of uncertainties in the estimate that will only become more certain as further information becomes available. The most significant uncertainty is the financing share, which will determine how much of the EU's outstanding commitments and liabilities the UK will pay for after 2020. This will not be known until outturn Gross National Income figures for 2020 become available in 2022, when the final tally is made of the UK's budget contributions to the EU over the period 2014 to 2020, compared with all member states' contributions.

   Recommendation: ***The Treasury should write to the Committee providing an updated estimate of the settlement's value before the Parliamentary summer 2018 recess, and then at least annually following any significant new data becoming available after the UK's withdrawal from the EU.***

2. **The UK could be making settlement payments to the EU for many years.** The Treasury estimates that 60% of the settlement will be paid by the end of 2021, but some payments could go on for many decades. Payments by the UK to meet the estimated £8.6 billion liability for its share of EU staff pensions and post-employment sickness benefits could last until at least 2064. The UK can negotiate with the Commission to settle the UK's share of its pension and sickness benefits liabilities early, but assessing whether this is good value for money will require extensive cost-benefit analysis. The actual value of any early pay-off will be sensitive to the assumptions in the calculation to arrive at the present value of future payments among other factors, which will be determined by the EU.

   Recommendation: ***In response to this report, the Treasury should set out the factors it will take into account when deciding the value for money of settling the UK's pension and post-employment sickness benefit liability early.***

3. **The Treasury's estimate does not provide Parliament and the taxpayer with a sufficient understanding of the uncertainty attached to the settlement's value.** The Treasury believes that its estimate of the settlement value is "conservative and reasonable". However, in making this estimate, the Treasury has undertaken limited analysis of the impact of changes to the assumptions on which the settlement estimate is based, considering the inherent uncertainty involved in forecasting future events. In particular, the Treasury did not account for the uncertainty associated with the UK's financing share in its estimated range of the settlement. The Treasury told us that its primary concern was to publish an estimate that the Commission would agree to, meaning it could not deviate from published data. But this means that the estimated range of £35 billion to £39 billion is narrow given the degree of uncertainty about the settlement. While the Treasury told us that it has undertaken additional analysis beyond its published estimate, it did not tell us how likely it is that the settlement's actual value will fall outside its estimated range.

Recommendation: ***In responding to this report, the Treasury should provide the Committee with details of the sensitivity analysis it has performed on the £35 billion to £39 billion settlement value. In subsequent updates to its settlement estimate, the Treasury should also set out details of the sensitivity analysis performed, including how likely it considers the actual settlement value will fall outside its estimated range.***

4. **The Treasury's estimate of the cost of the financial settlement does not include at least £10 billion of costs to the government associated with the UK's withdrawal from the EU.** The Treasury has not included nearly £3 billion of payments the UK will make to the European Development Fund, the EU's main way of providing overseas development aid, after withdrawal. It also excludes an estimated £7.2 billion of EU funding that will go directly to UK private sector bodies, which the Treasury has deducted from its estimate of the settlement. Its estimate also does not include parts of the withdrawal agreement that are still to be negotiated which could have associated costs, such as how to deal with the taxation of goods dispatched from the UK during the transition period but do not arrive in the EU until after 2020. The Treasury believe any such costs will be small.

Recommendation: ***When providing its updated estimate of the settlement's value to Parliament, the Treasury must be clear what the total potential cost of the settlement is to the government, including how much of EU receipts factored into the settlement will not come into the government's accounts, and setting out payments to the European Development Fund.***

5. **We are concerned that the Treasury has not set out how it will assure Parliament and the taxpayer that future settlement payments will be made accurately.** Some financial settlement payments will be made outside of the usual assurance arrangements in place for the UK's contributions to the EU, and the Treasury will need to verify settlement payments as a non-member state. The Treasury told us that it has limited the EU's ability to make subjective decisions or judgements on what the UK should pay for, but the Treasury will nonetheless still be reliant on information from the EU when making payments. The European Court of Auditors will be responsible for auditing the EU accounts. The UK's representation in that organisation will end when the UK leaves the EU. The Treasury expects to be able to scrutinise settlement bills from the EU, supported by appointed auditors, but it is yet to decide on the precise skills and capabilities that it will need to do so.

Recommendation: ***The Treasury should, within four months of our report, set out the assurance arrangements that it has put in place to ensure that the UK does not pay more than it owes, including how and when it will appoint its auditors. The Treasury should ensure that the UK continues to have sufficient input into the key EU institutions responsible for ensuring the accuracy of the EU's financial information, particularly the European Court of Auditors, until the transition period finishes.***

6. **The Treasury's plans for reporting to Parliament on the wider potential costs and benefits of withdrawal are not sufficiently clear.** The UK faces potentially significant costs from withdrawing from the EU depending on the nature of its future relationship with the EU. This includes needing to set up new institutions

to replace services currently provided by EU bodies, establishing new trade and customs arrangements, and potentially paying to participate in some EU agencies and programmes. Government departments are developing proposals for this future relationship and these are still to be negotiated. The Treasury told us that the government plans to set out a framework for the UK's future relationship with the EU in time for Parliament's vote on the withdrawal agreement. The Treasury told us that the financial settlement will not become legally binding until the withdrawal agreement is agreed and ratified by the UK and EU. For Parliament to have a meaningful vote on the withdrawal agreement, in which it may commit to paying the financial settlement, there must be greater clarity on the full potential costs and benefits of withdrawal. While the Treasury recognises that Parliament and the public must have better information on these costs and benefits in the run up to the Parliamentary vote later in 2018, it has not set out any details of the nature, timing and subsequent frequency of reporting.

Recommendation: ***In responding to this report, the Treasury and the government should set out its arrangements for reporting to Parliament on the wider potential costs and benefits of withdrawal, such as the costs of setting up new institutions to replace services currently provided by EU bodies and participating in EU institutions, and when it will provide Parliament sight of the legal advice it received. These arrangements should seek to provide MPs with as much time as possible to review the information before Parliament's vote on the withdrawal agreement.***

1 The Treasury's estimate of the financial settlement

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from HM Treasury (the Treasury) on the financial settlement resulting from the UK's withdrawal from the European Union (the EU).[1]

2. On 29 March 2017, the UK invoked Article 50 of the Lisbon Treaty and is scheduled to leave the EU on 29 March 2019. The Treasury has been leading the government's negotiations with the European Commission (the Commission) on the financial settlement, which comprises what the UK will pay upon withdrawal towards the net commitments and liabilities that the EU entered into when the UK was a member state.[2]

3. In December 2017 the government and the Commission published a joint report detailing the progress that had been made during the first phase of negotiations and setting out the principles which underpin the financial settlement. In January 2018, the Chancellor of the Exchequer set out a "reasonable central estimate" that the value of the financial settlement would be between £35 billion and £39 billion. In March 2018, the government and the Commission set out further details on how the settlement will be calculated and paid, in a draft of the withdrawal agreement. The Treasury told us that the settlement was conditional on there being a transitional agreement between the UK withdrawal and the new relationship being established between the UK and EU.[3]

Uncertainty of the financial settlement's value

4. The Treasury made its estimate of the financial settlement to provide some understanding in monetary terms of what had been agreed in the joint report with the Commission. The estimate was derived, as far as possible, from publicly available data.[4] The Treasury used a combination of EU accounts audited by the European Court of Auditors, the Commission's forecasts of its future spend and its own projections based on historical trends. The Treasury told us that it used the Commission's data where possible because of the ease of collecting this data and because it wanted to produce an estimate with which the Commission would agree.[5] Its calculations indicated that the settlement would cost an estimated €40 billion to €45 billion, equivalent to £35 billion to £39 billion (Figure 1).[6]

1 Report by the Comptroller and Auditor General, Exiting the EU: The financial settlement, Session 2017–19, HC 946, 20 April 2018
2 C&AG's Report, para 1
3 Q 37; C&AG's Report paras 3, 5; Letter from the Chancellor of the Exchequer to the Treasury Committee, 24 January 2018
4 Q 63; C&AG's Report, para 5
5 Qq 63–65
6 Q 37; C&AG's Report, para 10

Figure 1: HM Treasury's estimate of the UK's EU exit settlement value

Period payments relate to	Settlement component	HM Treasury's estimate (€bn)	HM Treasury's estimate (£bn)
Before the end of 2020	Contributions to the EU's budget	17–18	15–16
After the end of 2020	Contributions to the outstanding budgetary commitments	21–23	19–30
	Share of the EU's liabilities[1]	2–4	2–4
Total		**40–45**	**35–39**[2]

Notes:

1. Includes €3.5 billion repaid capital to the UK from the European Investment Bank.

2. HM Treasury converted euro amounts using an exchange rate on the date of the joint report. This was €1.13 to £1.

3. Figures may not sum due to rounding.

Source: C&AG's report, Figures 1 and 5

5. The Treasury told us that the components of the settlement were agreed in the joint report and then put into legal text in the draft withdrawal agreement. It asserted that in doing so a "very clear", "watertight" definition of what is included within the settlement had been set.[7] The Treasury told us that it was confident that once the withdrawal agreement is ratified and agreed by both the UK and EU, no further elements could be added to the financial settlement, thus creating a "very clear ceiling or cap" on what the UK will pay for.[8] The Treasury asserted that it had fought hard to secure protections so that, after withdrawal, the UK would not be affected by changes to decisions on the overall ceiling for the EU's budget or the basis upon which countries contribute.[9]

6. The Treasury acknowledged that there is some uncertainty over what the precise cost of the settlement will be, as its calculation is dependent on future events. It only had data from a few points in time looking backwards with which to forecast the future.[10] The UK has agreed to pay for commitments that are made by the EU during the period up to 31 December 2020. The Treasury used a forecast figure for its estimate of the financial settlement. But it will not know the actual figures until after this date when the proportion of commitments that do not result in a payment are known (e.g. if recipients do not claim payments in time, or fail to meet the necessary criteria).[11]

7. The Treasury told us that the main area of uncertainty in the estimate of the financial settlement is the UK's financing share, which determines how much of the EU's outstanding commitments and liabilities the UK will pay for after 2020.[12] This depends on a range of factors, including the performance of the UK economy compared to that of

7 Qq 17, 19
8 Qq 8, 34
9 Qq 73–74
10 Qq 8, 18, 50; C&AG's Report, para 21
11 Q 18; C&AG's Report, para 1.17
12 Q 99; C&AG's Report, paras 1.14, 3.3

other member states over the period 2014 to 2020.[13] The actual financing share will not be known until 2022, following publication of the 2020 audited EU accounts and once statistics on the gross national income of member states are available.[14] The Office for Budget Responsibility (OBR) had estimated that the financing share would be 12.4%.[15] However, in calculating its estimate the Treasury told us that it used the Commission's estimate of 12.7%, resulting in a higher settlement estimate when compared to using the OBR's forecast. It asserted that therefore using 12.7% results in a "conservative" estimate of what the UK will be liable to pay.[16] We heard from the Treasury that it is unlikely that the financing share would increase from its 12.7% estimate to push the amount the UK will pay above its estimate of the financial settlement. The UK's financing share has only exceeded 12.9% once in the last 10 years. If the financing share averaged this rate over the period 2014 to 2020, this would lead to a settlement above £39 billion.[17]

Determining the estimated range of the settlement

8. The Treasury told us that its estimate of the financial settlement of £35 billion to £39 billion is "reasonable" and based on a number of conservative assumptions, including assuming that the UK would be liable for a higher share of the EU's liabilities than the OBR had estimated.[18] However, the NAO report found that although the Treasury was aware of the uncertainties that could impact the settlement value, such as variations in inflation rates, the financing share and foreign exchange rates, it did not adjust its estimate of the range of the settlement to account for them.[19] As a result, relatively small changes to some of the assumptions underpinning the settlement would cause Treasury's estimate to be outside the narrow £35 billion to £39 billion range.[20]

9. The Treasury told us that it has considered all the main drivers of the estimated cost of the financial settlement and had undertaken some sensitivity analysis around the impact of fluctuations in the financing share.[21] However, this exercise was complicated because the financing share will depend on a calculation that factors in projections of the UK's economic performance in 2019 to 2020, adjusted for the UK's rebate, and based on assumptions on the prevailing exchange rate.[22] When asked about the accuracy of its estimate, the Treasury did not indicate how likely it is that the actual value of the settlement will fall outside of its estimated range.[23]

Settlement costs not included in the Treasury's estimate

10. The Treasury and UK government have agreed with the EU that the UK will honour the commitments it made while it was a member state. The Treasury's estimate of the financial settlement, however, does not include all costs that the UK is likely to incur

13 Qq 25, 119
14 Q 106, C&AG's Report, para 3.3
15 C&AG's Report, para 2.6
16 Qq 65, 67; C&AG's Report, paras 1.14, 2.6
17 Qq 25–29, C&AG's Report, para 2.7
18 Qq 7, 18, 32, 55, 65, 67, 98–99, 121
19 C&AG's Report, para 2.23, Figure 13
20 C&AG's Report, para 12
21 Qq 25, 32, 55
22 Qq 51–53; C&AG's Report, para 2.3
23 Qq 96–101

as part of leaving the EU. For example, the Treasury estimates that at the point the UK leaves the EU, it will still be committed to paying around £3 billion towards the European Development Fund (EDF) and that payments will continue until 2026.[24]

11. The Treasury told us that it had not included these payments within its estimate of the financial settlement because outstanding EDF commitments were in a different category of spending from obligations arising out of being a member of the EU. It asserted that these commitments were entered into by the Department for International Development as part of decisions on how the UK's development assistance budget would be spent. The Treasury told us that the UK's legal obligation to spend 0.7% of its Gross Domestic Product on overseas aid meant that if this budget was not spent through the EDF, the government would be required to spend this through another route, and so was a cost that would exist regardless of whether or not the UK withdrew from the EU.[25]

12. The UK remains liable for its share of the EU's contingent liabilities, which are potential costs which are not currently expected to result in payment, such as a guarantee for the European Investment Bank. These liabilities are not included within the Treasury's estimate because both the Treasury and the Commission deem the chance of them materialising to be remote.[26] The Treasury agreed with the Commission that the UK will only be liable for those liabilities which had already been established at the date of the UK's withdrawal from the EU. The only exception to this is for liabilities relating to legal cases as a result of being a contributor to the EU budget, where the liability relates to events that take place before 31 December 2020. The Treasury explained that this gives the UK some protection against liabilities that could emerge in the event of, for example, a Eurozone crisis after the UK has left the EU, because the UK will not be liable for new financial instruments created to support Eurozone countries.[27] It also told us that the largest contingent liability, a guarantee for capital that could be called upon by the European Investment Bank in the event of serious financial difficulty, may exist for many decades. However, the Treasury told us that the risk of this liability materialising was low and had not "come at all close" to materialising during the last Eurozone crisis between the years 2009–2012.[28]

13. The Treasury's estimate of the financial settlement is the net cost of the settlement to the UK as a whole and does not distinguish between EU payments to UK private and public sector organisations. Payments from the UK to the EU, and payments from the EU that go to UK public sector organisations, are recorded in government accounts. However, payments from the EU that go directly to UK private sector organisations, estimated to be some £7.2 billion, are not recorded in government accounts. Therefore, the net cost of the settlement to the government as recorded in government accounts is likely to be higher than Treasury's estimate.[29]

14. The draft withdrawal agreement published following the March 2018 European Council meeting sets out where negotiators from both sides have reached political agreement, including on the financial settlement.[30] There were other areas of the

24 C&AG's Report, para 2.24
25 Qq 16, 20–21, 68–69
26 C&AG's Report, para 2.25
27 Q 77; C&AG's Report, paras 2.25, 2.27
28 Qq 83–84; C&AG's Report, para 2.28
29 C&AG's Report, paras 14, 1.16
30 Q 33

withdrawal agreement where further negotiations are needed. These included the impact on the border between Northern Ireland and the Republic of Ireland and the taxation of goods dispatched from the UK to a member state, or vice versa, during the transition period but which will not arrive until after 2020.[31] The Treasury told us that the areas that are not yet agreed will not "come close" to affecting its estimate of the cost of the financial settlement. It asserted that there were only "one or two" areas which are still under negotiation where there could be a cost attached, but that these would be "very small".[32]

The timing of future settlement payments

15. The joint report states that settlement payments will become due to the EU as if the UK had remained a member state. The UK will not be required to make a single payment to cover the full cost of the settlement, or to make payments earlier unless the UK government requests to make a lump sum payment of its outstanding net commitments and liabilities. The Treasury expects to pay €7.1 billion and €11.2 billion in 2019 and 2020 respectively, and the remaining balance after this. It estimates that the UK will make around 60% of settlement payments by the end of 2021, but some payments will continue for several decades.[33]

16. The largest liabilities that the UK will be required to contribute to relate to the cost of the EU's staff pension and post-employment sickness benefits. The Treasury has estimated that the UK's share of these liabilities will be approximately £8.6 billion and that it could be paying into the scheme until at least 2064.[34] The Treasury agreed with the Commission to base its estimate of the cost of these liabilities on previous years' estimates by actuaries, who provide pension valuations, to forecast the liability at 31 December 2020. However, the Treasury argued that the discount rate, factored into the actuaries' estimates to calculate what future payments would be worth if settled today, was historically low.[35] The Treasury stated that the discount rate will not affect the settlement payments the UK would make if it pays the liability when it falls due.[36]

17. The UK can negotiate with the Commission to settle its pension liabilities early.[37] The value of any early pay-off would be based on an estimate by an actuary and be sensitive to the discount rate applied, as well as other assumptions such as the expected rates of salary increases, and mortality rates.[38] The historically low discount rate could inflate the liability, and consequently, the amount the UK pays if settled early. The payment could be lower if the UK waits and the discount rate increases. The Treasury told us that when deciding whether to settle early, it would make a judgement in the normal way that it would assess the value for money of any long-term investment, including performing very extensive cost-benefit analysis.[39]

31 Q 40
32 Qq 40–42
33 Qq 70, 143; C&AG's Report, paras 1.20, 3.4
34 C&AG's Report, paras 1.9, 1.18–1.20, Figures 9, 10
35 Qq 30, 129; C&AG's Report, para 1.18
36 Qq 126, 129
37 Q 129
38 Qq 128–131; C&AG's Report, paras 2.19–2.20, 3.5
39 Qq 129–132

2 Implementing the settlement

18. On 19 March 2018, the Commission and the government published a draft withdrawal agreement that translated the commitments made in the joint report into a draft legal agreement. It also provided further detail on the timing of the payments as part of the financial settlement and how these would be calculated. Parliament will vote on the finalised withdrawal agreement in late 2018. The European Parliament must then give its consent to the withdrawal agreement agreed between the UK and the Commission. This is expected in late 2018 or early 2019. The UK leaves the EU on 29 March 2019.[40]

19. The UK will continue to contribute to the EU's annual budgets in 2019 and 2020 as if it had remained a member state. This is part of the transition period where the UK is no longer a member state, but new arrangements have not yet begun (April 2019 to December 2020). These payments will be made through existing arrangements for member states' budget contributions, and account for between £15 billion and £15.9 billion of the estimated cost of the financial settlement. The remaining £20.4 billion to £23.9 billion of the settlement will be paid outside of the UK's normal contributions to the EU budget. Consequently, the Treasury will need to establish new mechanisms to verify requests for payments from the EU so that the UK does not pay out more than is due.[41]

Skills needed to verify settlement payment requests

20. The Treasury told us that it had secured agreement in the joint report and draft withdrawal agreement to cap what the UK will pay for in the financial settlement.[42] It told us, therefore, that the main change to the its assurance arrangements necessitated by the financial settlement compared to making routine contributions to the EU budget was that rather than scrutinising payments from inside the EU, it will be doing so from the outside. It added that this different type of relationship meant that it needed a "robust" ability to access the figures and scrutinise them.[43] The European Court of Auditors (ECA) audit the EU's accounts and other information that is published. The UK has representation on the ECA, but that representation is expected to come to an end when the UK leaves the EU.[44] While the Treasury expects the majority of the settlement will be calculated using audited publicly-available data, it has secured the right for its own appointed auditors to gain access to EU-held information.[45] The Treasury told us that it is undertaking an internal exercise to specify the information it will require and which auditors it will use. The withdrawal agreement allows for a dispute arbitration arrangement to be established. However, how this would work in practice is still to be negotiated.[46]

21. The Treasury has not yet decided on the skills it needs to verify settlement payment requests from the Commission. It expects to complete this task by the end of 2018.[47] It plans to form a team from Treasury officials, who have a "deep understanding" of the EU budget, and appointed external auditors.[48] The Treasury told us that it has maintained a team of

40 C&AG's Report, para 3.2, Figure 2
41 C&AG's Report, paras 3.2–3.3, 3.7–3.9, Figure 5
42 Qq 8, 18, 34, 90–92
43 Q 87
44 Q 109
45 Qq 90–93; C&AG's Report, para 3.9
46 Qq 57–62, 103
47 Qq 87–89, 103
48 Q 105

people scrutinising EU financing for 40 years, and that it had recently supplemented the team with expertise in corporate finance, legal and audit.[49] It told us that it is considering what reporting arrangements will be needed to keep Parliament and the public informed of how the settlement is proceeding, but could not yet confirm what form this would take.[50]

Reporting the wider potential costs and benefits of withdrawal

22. The Treasury told us that the UK is expected to benefit financially from its withdrawal from the EU in 2021, when payments to the EU are expected to be less than they would have been if the UK was a member state. However, this depends on what the government decides to do with the money that would have gone to the EU if the UK remained a member state. In making its projections for the UK economy and public finances, the OBR assumed that the UK government would end up spending all the money that is currently set aside for contributions to the EU, but that it would be able to decide on what the money would be spent. However, the OBR also noted that the largest factor determining the impact of the UK's exit from the EU on public finances will be the indirect effect on the performance of the economy. The Treasury told us that it was not possible to predict what this impact might be at this stage. The impact on public finances would also encompass any increase in domestic spending that is agreed to replace services the UK was currently getting from the EU.[51]

23. The Treasury's estimate of the financial settlement only includes the cost of the UK meeting its agreed obligations when leaving the EU. This is different to the costs of the UK's future relationship with the EU.[52] This includes needing to set up new institutions to replace services currently provided by EU bodies, establishing new trade and customs arrangements, and potentially paying to participate in some EU agencies and programmes after the transitional period. The Treasury told us that government departments were in the process of deciding how to replicate services currently provided by EU bodies, or whether to participate in EU agencies, which may carry a cost.[53] The Treasury told us that it is too early in negotiations to quantify any potential costs of future trading and customs arrangements between the UK and the EU. It stated that the government would have more certainty on these costs once decisions have been taken, and agreed with the EU, on what the UK's future relationship will be.[54] The Treasury told us that it had nonetheless allocated £3 billion over 2018–19 and 2019–20 to meet the costs of departments preparing to leave the EU based on what it considered to be a reasonable estimate.[55] The UK may also wish to continue to participate in EU programmes and funds, such as the Galileo global navigation satellite system programme. The Treasury told us that when decisions are being taken on whether or not to continue to participate in EU programmes, it will take account of the cost and benefits, including the UK's "sunk costs" in ongoing programmes and benefits foregone if it is no longer participating.[56]

49 Qq 86, 102
50 Qq 10, 98
51 Qq 1–2, 144–146
52 Qq 3, 6, 14, 22, 36, 80, 118
53 Qq 3, 9, 22, 120
54 Qq 13, 47, 80
55 Qq 9, 121,
56 Qq 110, 115–116; C&AG's Report, para 2.30

24. Parliament will vote on the finalised withdrawal agreement in late 2018. The Treasury told us that when the vote is held, it will provide Parliament with an agreement between the UK and EU27 on the framework for the UK's future relationship with the EU alongside the withdrawal agreement. It confirmed that the government intends that Parliament and the public will have clarity on the form the future partnership will take but could not provide us with any details on what the framework would look like, nor how much of the detail or fine print would already be agreed at this point.[57]

25. The Treasury told us that when the withdrawal agreement is agreed and ratified by the UK and EU, the financial settlement would become legally binding.[58] However, the Treasury told us that while negotiations with the EU on the future relationship had started, they were expected to continue during the transition period.[59] The Treasury told us that when there was a clear proposition, or in-principle agreement, for the UK's future relationship with the UK that needed Parliamentary support, then it would be submitted to Parliament alongside information on costs so that MPs could make an informed decision. What information will be provided, including any legal advice on the settlement, is a decision for Ministers.[60] The Treasury took legal advice on the UK's rights and obligations on leaving the EU, but made representations to the NAO that it would be damaging to the national interest to publish this in any detail.[61] The Treasury told us that the decision not to publish any legal advice at this stage was because the negotiations are ongoing.[62]

57 Qq 23–24
58 Qq 8, 12, 38, 78
59 Qq 13, 24, 80
60 Qq 80–81, 120, 140
61 C&AG's Report, para 1.4
62 Q 140

Formal minutes

Wednesday 20 June 2018

Members present:

Meg Hillier (in the Chair)

Bim Afolami	Shabana Mahmood
Sir Geoffrey Clifton-Brown	Anne Marie Morris
Chris Evans	Bridget Phillipson
Caroline Flint	Lee Rowley

Draft Report (*Exiting the EU: the financial settlement*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 25 read and agreed to.

Introduction agree to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Forty-eighth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 25 June at 2.30 pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Monday 23 April 2018

	Question number
Sir Tom Scholar, Permanent Secretary, HM Treasury, Mark Bowman, Director General, International and EU, HM Treasury, and Ian Ginsberg, Deputy Director, European Financing, HM Treasury	Q1–148

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2017–19

First Report	Tackling online VAT fraud and error	HC 312 (Cm 9549)
Second Report	Brexit and the future of Customs	HC 401 (Cm 9565)
Third Report	Hinkley Point C	HC 393 (Cm 9565)
Fourth Report	Clinical correspondence handling at NHS Shared Business Services	HC 396 (Cm 9575)
Fifth Report	Managing the costs of clinical negligence in hospital trusts	HC 397 (Cm 9575)
Sixth Report	The growing threat of online fraud	HC 399 (Cm 9575)
Seventh Report	Brexit and the UK border	HC 558 (Cm 9575)
Eighth Report	Mental health in prisons	HC 400 (Cm 9575) (Cm 9596)
Ninth Report	Sheffield to Rotherham tram-trains	HC 453 (Cm 9575)
Tenth Report	High Speed 2 Annual Report and Accounts	HC 454 (Cm 9575)
Eleventh Report	Homeless households	HC 462 (Cm 9575) (Cm 9618)
Twelfth Report	HMRC's Performance in 2016–17	HC 456 (Cm 9596)
Thirteenth Report	NHS continuing healthcare funding	HC 455 (Cm 9596)
Fourteenth Report	Delivering Carrier Strike	HC 394 (Cm 9596)
Fifteenth Report	Offender-monitoring tags	HC 458 (Cm 9596)
Sixteenth Report	Government borrowing and the Whole of Government Accounts	HC 463 (Cm 9596)
Seventeenth Report	Retaining and developing the teaching workforce	HC 460 (Cm 9596)

Eighteenth Report	Exiting the European Union	HC 467 (Cm 9596)
Nineteenth Report	Excess Votes 2016–17	HC 806 (Cm 9596)
Twentieth Report	Update on the Thameslink Programme	HC 466 (Cm 9618)
Twenty-First Report	The Nuclear Decommissioning Authority's Magnox	HC 461 (Cm 9618)
Twenty-Second Report	The monitoring, inspection and funding of Learndirect Ltd.	HC 875 (Cm 9618)
Twenty-Third Report	Alternative Higher Education Providers	HC 736 (Cm 9618)
Twenty-Fourth Report	Care Quality Commission: regulating health and social care	HC 468 (Cm 9618)
Twenty-Fifth Report	The sale of the Green Investment Bank	HC 468 (Cm 9618)
Twenty-Sixth Report	Governance and departmental oversight of the Greater Cambridge Greater Peterborough Local Enterprise Partnership	HC 896 (Cm 9618)
Twenty-Seventh Report	Government contracts for Community Rehabilitation Companies	HC 897 (Cm 9618)
Twenty-Eighth Report	Ministry of Defence: Acquisition and support of defence equipment	HC 724 (Cm 9618)
Twenty-Ninth Report	Sustainability and transformation in the NHS	HC 793 (Cm 9618)
Thirtieth Report	Academy schools' finances	HC 760 (Cm 9618)
Thirty-First Report	The future of the National Lottery	HC 898
Thirty-Second Report	Cyber-attack on the NHS	HC 787
Thirty-Third Report	Research and Development funding across government	HC 668
Thirty-Fourth Report	Exiting the European Union: The Department for Business, Energy and Industrial Strategy	HC 687
Thirty-Fifth Report	Rail franchising in the UK	HC 689
Thirty-Sixth Report	Reducing modern slavery	HC 886
Thirty-Seventh Report	Exiting the European Union: The Department for Environment, Food & Rural Affairs and the Department for International Trade	HC 699
Thirty-Eighth Report	The adult social care workforce in England	HC 690
Thirty-Ninth Report	The Defence Equipment Plan 2017–2027	HC 880

Fortieth Report	Renewable Heat Incentive in Great Britain	HC 696
Forty-First Report	Government risk assessments relating to Carillion	HC 1045
Forty-Second Report	Modernising the Disclosure and Barring Service	HC 695
Forty-Third Report	Clinical correspondence handling in the NHS	HC 929
Forty-Fourth Report	Reducing emergency admissions	HC 795
Forty-Fifth Report	The higher education market	HC 693
Forty-Sixth Report	Private Finance Initiatives	HC 894
Forty-Seventh Report	Delivering STEM skills for the economy	HC 691
First Special Report	Chair of the Public Accounts Committee's Second Annual Report	HC 347