



HM Treasury

Committee scrutiny correspondence: EU budget

The Financial Secretary to the Treasury is today writing to the chairs of the House of Commons European Scrutiny Committee and the House of Lords European Union Committee to update on the EU budget, following negotiations on the 2014 and 2015 annual budget.

The UK's approach to the EU budget is to deliver real budgetary restraint in the EU, in order to secure the best possible deal for UK taxpayers. Both the Chancellor's deal on halving and deferring the £1.7bn surcharge and the outcome of the annual budget negotiations this week show that the UK is delivering on these objectives in Brussels.

This has been the first annual budget negotiation under the new Multiannual Financial Framework (MFF) deal secured by the Prime Minister in February 2013, which delivered an unprecedented real terms cut to the EU budget framework.

As a result of that deal, the proposed 2014 annual budget will be lower in cash and real terms than the final 2013 budget. This, and the protracted negotiations around that budget, is evidence that the MFF deal is delivering fiscal restraint in the EU.

The budgets for both 2014 and 2015 are consistent with the MFF and are within its ceiling. The proposed 2014 budget includes the mobilisation of the contingency margin, and both the 2014 and 2015 budgets include the use of special instruments. Both of these instruments are provided for within the MFF. The contingency margin enables expenditure from future years of the MFF to be drawn forward to 2014. This drawn forward expenditure must be offset by an equivalent reduction to the ceilings in future years of the MFF. This leaves the total MFF ceiling unchanged.

The EU budget was €144.5bn in 2013. It will be €139.0bn in 2014, including a €3.2bn mobilisation of the contingency margin. The proposed budget for 2015 is €141.2bn.

Looking at the individual headings within the budget for 2015, payment expenditure on Heading 1a (research, learning and innovation) will increase by 33% to €15.8bn in 2015 compared to the final 2014 budget (€11.9bn). Payment expenditure on Heading 1b (regional growth and employment) will decrease by 4.3% to €51.1bn in 2015 compared to 2014 (€53.4bn). Payment expenditure on Heading 2 (agricultural policy, rural development and fisheries) will decrease by 0.08% to €56.0bn in 2015 compared to 2014 (€56.4bn). Payment expenditure on Heading 3 (immigration, migration, security and justice) will increase by 1.3% to €1.9bn in 2015 compared to 2014 (€1.7bn). Payment expenditure on Heading 4 (EU foreign policy and international development) will

increase by 8.5% to €7.4bn in 2015 compared to 2014 (€6.8bn). Payment expenditure on Heading 5 (administration) will increase by 3% to €8.7bn in 2015 compared to 2014 (€8.4bn).

A number of different amending budgets have been agreed as part of this deal. Whilst some include increases to expenditure in 2014, other amending budgets return revenue to Member States, reducing contributions from the UK. For this reason, taking into account all the amendments that comprise the 2014 annual budget, the fiscal impact on the UK is neutral.

Despite the fact that the EU budget is falling in real and cash terms in 2014, the Government continues to believe there should be maximum restraint on the EU budget with even lower levels of payments, and was therefore unable to support the annual budget package. This package will be voted on formally in the Council of Ministers expected on Friday 12 December.

Separate to the annual budget, at the ECOFIN meeting of EU Finance Ministers on 7 November, the Chancellor secured an agreement to change the EU budget rules permanently, following the demand of a surcharge bill for £1.7bn on 1 December. As the Prime Minister said at the time, while annual adjustments to contributions were a regular part of EU membership, a sudden and unprecedented demand for a £1.7bn payment on 1 December was unacceptable.

The new rules allow for payments to be delayed without interest penalties, up to September the following year. This is being achieved through an amendment to Regulation 1150/2000. In addition, following discussion with the new European Commission, it was agreed that a full rebate would apply to the British payment, and that, for the first time ever, it would be paid at the same time as any money owed.

As the Chancellor set out to the House on 10 November 2013, Britain's payments have as a result been halved, from £1.7bn to approximately £850m. This comprises three elements: the £1.7bn, which, as set out in the original publication, itself comprises a gross transfer of £2.9bn (€3.6bn) and a resulting return transfer of £1.2bn (€1.5bn); and then the rebate, estimated by the Commission to be worth approximately €1bn (£850m). These collectively come to a net payment of around £850m.

The agreement secured by the Chancellor is now being implemented. The Government has confirmed in correspondence to the European Commission that it will make its payments in instalments next year. As a result, the UK made no payment on 1 December this year, and the Commission have confirmed the UK will not incur any interest as a result. A number of other countries have also deferred their payments.

The payments next year will follow the standard procedure for administering the EU budget, with net payments incorporating transfers to and from the budget.

There will be a series of transfers from the EU totalling £1.2bn, plus the exceptional application of the rebate payment of approximately £850m, and so totalling approximately £2bn. There will be gross transfers to the EU budget of £435m on 1 July 2015, which represents approximately half the estimated overall net payment; and a further gross transfer of £2.4bn on 1 September 2015, which, when offset by the above payments from the EU of approximately £2bn which we understand will be received on or before this date, represents approximately the other half of the net payment.

The agreement reached implies that the UK's net transfer to the EU for these specific payments will not exceed £850m at any one time. In practice, these different transfers will be administered with the other standard monthly EU budget transfers, and aggregated into net payments, including the application of the rebate.

The Government will formally vote in favour of the amended regulation enabling the agreement secured by the Chancellor in the Council of Ministers.

The overall impact on the fiscal position of the EU budget, including both the annual budget and the deferred and reduced surcharge, was estimated by the Office for Budget Responsibility (OBR) in its Autumn Statement forecast on 3 December 2014. That forecast made an assumption for the annual budget which is broadly in line with the actual outcome. Taking this and their other assumptions into account, the OBR forecasts that the UK's net contribution to the EU budget will be lower over the forecast period (2014-15 to 2018-19) than assumed at the Budget in March 2014.

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