Dear Ms Hillier

GOVERNMENT RESPONSE TO 48TH REPORT: EXITING THE EU: THE FINANCIAL SETTLEMENT

Thank you for the Committee’s report on the financial settlement of the UK’s withdrawal from the EU.

The Government response to the report is not due until October. But the Clerk has informed us that the Committee would like a response to the first recommendation before the summer recess. The recommendation was as follows:

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.

In her statement to the House on 11 December 2017, the Prime Minister referred to a current estimate of the settlement of £35-39bn. The Chancellor set out in a letter to the Treasury Select Committee on 24 January 2018 the components of the settlement and the principles for their valuation, including a breakdown of this estimate.
Since then, the Office for Budget Responsibility (OBR) have produced an estimate of the settlement. This was set out in an Annex to the Economic and Fiscal Outlook, published in March 2018. Their central estimate for the settlement was £37.1bn and they explained the uncertainties in the figure and the impact on the public finances. There are some methodological differences between the OBR estimate and estimate set out by the Treasury. The Treasury figure used public EU data where possible. The OBR estimate uses their economic forecast. As the NAO mentioned in their report, wider economic factors are among the key variables that affect the estimate.

There has been limited new information, relevant to the estimate, since March. So we do not yet have an updated estimate. The OBR will update their estimate at the time of the Autumn Budget. We expect new information to become available by that time, including both the EU accounts and EU financial report for 2017. The OBR will, of course, also update their economic forecast.

The Government will respond to the report in full in the normal way in the autumn.