Dear colleague

The true costs of Brexit

As part of our work on Brexit, the PAC and Treasury Committee recently considered the NAO’s report on the Government’s calculation of the EU financial settlement.

Whilst the NAO’s report considered the Government’s estimate of the settlement of £35-£39 billion to be reasonable it also highlighted there are potential additional costs. The Public Accounts Committee’s report – published today – concluded there are further costs that arise from leaving the EU. In the months ahead, Parliament will be called on to make key decisions regarding the terms of the UK’s exit, and the framework for its future relationship, and we remain concerned that there is currently insufficient information on which it can base these crucial decisions.

The Government’s estimate of the settlement flows from the principles agreed with the EU27 last December, and relates to the payments required for the UK to settle its obligations to the EU as a departing Member State, and to the costs associated with the implementation period up to 2020.

The NAO highlights in its report that small changes to the assumptions the Government has made in reaching its estimate of the value of the settlement could push the final figure outside of the range. In particular, the Government’s estimate is highly sensitive to changes in the UK financing share, which in turn will depend on the relative GDP growth rates of the UK and the EU27.

There are also important exclusions from the Government’s estimate. In particular, the Government’s commitment to honour commitments made under the European Development Fund until the end of 2020 – costing £2.9bn – has not been included. And there will be further direct fiscal consequences of leaving the EU that do not fall within the financial settlement. These include:

- Contributions to any EU agencies in which the UK might wish to participate after Brexit. The Government has already indicated that it wishes to remain part of the European Medicines Agency, the European Chemicals Agency and the European Aviation Space Agency.

- The contingent liabilities that the UK will remain exposed to after Brexit, including EU financial assistance programmes and European Investment Bank guarantees.
• Participation in EU programmes, including farm support, the shared prosperity fund, and EU science and educational programmes, are included up to 2020, but there is no estimate for any continuing costs or replacement projects after that point.

• The costs associated with replacing the functions currently performed by the 44 EU agencies in which the UK currently participates.

The Government needs to provide clarity on the points above, in good time before Parliament comes to decide on the Withdrawal Agreement and future framework. Unless we understand what we and future generations will be paying for, we cannot call this a meaningful vote. Our Committees will continue to press Ministers and officials to provide the highest level of transparency on the points above, and on the wider fiscal consequences of Brexit.

Yours sincerely

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