

EUROPEAN AND EXTERNAL AFFAIRS COMMITTEE

Action point from May meeting (paragraph 2.3 of note of meeting)

Background

1. The Committee requested a note with more information on the possible difference to the budget for Wales under the Barnett formula if the EC budget as a proportion of EU GNI was cut to 1 per cent, if all the UK Government savings were put back into domestic spend and if other budgetary allocations remained the same.

Response

2. The EC budget itself has not been set and therefore would not be cut. The Commission's proposals are subject to negotiation.

3. The UK Government, as noted by Jacqui Smith MP, Minister for Regional Policy, at the recent Cohesion Forum pre-briefing event for UK delegates, has estimated that the extra net costs of the Commission's structural funds proposals compared to the UK's preferred approach, would be in the order of €3-4 billion over the programming period (2007-13). Thus the UK would pay this amount more than it would receive in structural funds allocations should the Commission proposals be implemented.

4. Overall, the UK Government estimates that an EU budget amounting to 1.26% of EU GNI, compared with the 1% EU GNI demanded by 6 member states including the UK, would involve an extra cost of €25 billion, or €3.5 billion a year.

5. The extra expenditure would have to be met by either increased tax revenues or reduced spending elsewhere. It would be these decisions, made in the course of a future Spending Review, that informed the consequential impact on public expenditure in Wales. There are no "savings" per se, because even a budget of 1% of EU GNI would involve a real increase in the amount paid by the Exchequer to Europe.

6. If the €3.5bn was targeted at domestic spending rather than a contribution to the EU, the Barnett-determined impact on Wales would be dependant primarily on the UK Government decisions as to the distribution of the funding between Whitehall Departments. This is because the Barnett formula simply calculates a cash outcome for each of the devolved administrations based on the changes to budgets in Whitehall departments; the population and the extent to which programmes are common between the two countries.

7. To illustrate, if the full €3.5bn was added to the budget of departments which have no

comparability with Wales (that is, none of the programmes have been devolved to the Assembly Government, eg Ministry of Defence), then under Barnett, Wales would receive no consequential funding. On the other hand, if the full €3.5bn was added to a Whitehall Department with a high comparability such as the Department for Education and Skills, Wales could expect to receive its full Barnett share. It would be more likely that the outcome would be that the €3.5bn would be allocated across a range of Departments each some of which would generate its own Barnett consequential which would then be aggregated. In practice, this would happen as part of a general spending review and it would not be possible to disaggregate the effect of the €3.5bn from the rest of the budget changes.

8. It is therefore very difficult to estimate what proportion of the €3.5bn might flow to Wales if it were redirected to domestic spending because the Barnett driven outcome for Wales would be dependant on the spending decisions of the UK Government at the time the resource becomes available. In turn, these will be influenced by the UK Government's policy direction and other pressures and priorities. However if an additional €3.5bn had been distributed as part of the overall settlement to Whitehall Departments in 2003-04 on the same basis as the rest of the settlement that year, the consequential for Wales would have been some £66 million.

9. In addition, the Committee queried whether the UK rebate had been taken into consideration in calculating the figure of €3.5 billion.

10. HM Treasury have confirmed that the €3.5bn a year figure refers to the increase in the UK gross contribution, post abatement, that would be generated by a 1.26% EU budget compared with 1%. So the UK would not expect to get some of that €3.5 bn back - the rebate has already been factored in.

EUROPEAN AND EXTERNAL AFFAIRS DIVISION

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