Treasury Committee

Oral evidence: Revisions to the UK's EU Budget Contribution, HC 891

Wednesday 17 December 2014

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Watch the meeting

Members present: Mr Andrew Tyrie (Chair); Rushanara Ali, Steve Baker, Mark Garnier, Stewart Hosie, Mike Kane, Mr Andrew Love, John Mann, Jesse Norman, Teresa Pearce, Mr David Ruffley, Alok Sharma, John Thurso

Questions 1-66

Witnesses: **Rt Hon George Osborne MP**, Chancellor of the Exchequer, HM Treasury, and **Mark Bowman**, Director General International and EU, HM Treasury, gave evidence

Q1 Chair: Chancellor, thank you very much for coming back again for this second session, this time just on the revisions to the EU budget contribution. If you find the public coming in distracting I can adjourn for 20 seconds.

Mr Osborne: No, we can continue.

Chair: The key issue at stage here, it seems to me, is whether there is any new money that we would not otherwise have had or whether the requirement to pay has just been pushed back. On that you have been pretty emphatic, haven't you? You have said that you have halved the bill the UK had been handed. What did you mean by that?

Mr Osborne: First of all, I do not think the process by which we and other member states were presented with the bill was remotely acceptable. I think it was not well handled by the European Commission and I regret having to pay any additional money, frankly. However, confronted with the situation we were confronted with in the autumn, I set out to make sure that we not only secured the maximum rebate that I believed was possible to achieve but also we got the rebate paid in the year in which we would make payments. I also set out to achieve a delay in when those payments would be required, away from the 1st of this month, and, of course, that no interested would be paid on that delay. We achieved those three things, but I think it does beg bigger questions about how the European Union operates in this area.

Q2 Chair: Can we just go back to the question I was asking? Did you in fact halve the bill as a consequence of your negotiations?

Mr Osborne: As I said to the House of Commons, it was not clear at all that the rebate would apply to the extent that it did.

Q3 Chair: Sorry to interrupt, but to whom was it not clear?

Mr Osborne: Well, it was not clear to anyone because the Commission made no comment on the rebate when they first gave us the numbers. There was considerable uncertainty in Europe about that. In the House of Commons, no one other than Andrew Lansley asked a question about it and the political attack deployed against me by the Shadow Chancellor assumed that we would be paying £1.7 billion and that the interest I would have to pay on that was calculated off the £1.7 billion figure.

Q4 Chair: That may or may not be true, but I am not so worried what he is saying just now.

Mr Osborne: That is all the participants in this—

Chair: I am just targeting in on one point, which is whether there was any money brought back from these negotiations, other than the issue of timing and interest that would not have come back anyway. If it was not clear to anybody, why did the Treasury not clarify it?

Mr Osborne: We could only achieve that application of the rebate to the extent that it was applied—

Chair: I was using your words, Chancellor. "Unclear" was the word used—

Mr Osborne: Yes, but we could only achieve that with the agreement of the European Commission, and we could only get the payment delayed from 1 December with the agreement of 27 other member states. This was not a unilateral decision in the hands of the Treasury.

Q5 Chair: There was no doubt that the rebate would be recalculated, was there?

Mr Osborne: There was considerable doubt about whether the rebate would apply and how much it would deliver. I think it is important to remember that the context here was that the scale of these revisions had not been seen before. They had come out of the blue and they had required a draft amending budget, a rather unusual procedure, to be implemented.

Q6 Chair: We might come on to that in a minute, but I am just trying to clarify these basic points. Was there considerable doubt about whether the recalculation would trigger a change in the rebate?

Mr Osborne: I hoped that the rebate would apply, but I did—

Chair: Why were you only hoping that?

Mr Osborne: Because it was such a novel situation, but I had—

Q7 Chair: The relevant documents explicitly provide for this, don't they? If you look at the documents that the Council produces and the "Official Journal", what we are entitled to under the rebate is laid out in exhaustive detail.

Mr Osborne: It is indeed extremely complex and operates under three bases.

Chair: It is extremely complex.

Mr Osborne: I have to say that no one was expecting, at the start of this process, that we would achieve the rebate of €1 billion that we achieved. It was not on anyone's calculation or anyone's prediction that we would achieve that. Not that there were any in the British political debate, but even those who might have thought that a British rebate might apply were not predicting that we would receive €1 billion.

Q8 Chair: It is even set out in great detail here in section 4.2 and 4.3 of the relevant passage in the Council of the European Union document. I agree with you that you probably need some mathematical training to understand the formulae in sections 1 and 2, but it seems to me that the bottom line is—if I can use that phrase—that the bottom line did not change a scrape when you came back. I cannot see where the extra money, on the basis of what you have told me so far this afternoon, has come from.

Mr Osborne: It is not a unilateral decision of the British Treasury or the British Government to just say, "This is our rebate. We are entitled to it. Pay up". The way this works and has always worked is there is a negotiation with the European Commission. Of course, it is also open to legal challenge if any member state disagrees with that.

Chair: That is a very different point, Chancellor.

Mr Osborne: It is a pretty significant point, I would suggest.

Q9 Chair: When you say it is open to negotiation, it is open to negotiation on the basis of an extremely detailed framework of rules, laid down by the Council, which has always applied in the past and which applied in this case.

Mr Osborne: There was no precedent for this situation.

Q10 Chair: There have been a number of cases in the past in which precedents have been set for recalculations, but nothing on this scale I agree. Nonetheless, it is these rules that were applied.

Mr Osborne: These were backward revisions over many years, so it was not just the last year or two. These were backwards revisions for over a decade with a complicated net adjustment that fell in different ways on different member states. You then had this novel procedure with the draft amending budget. If you look at the reactions of some of the other

Governments around Europe you will see that everyone was caught by surprise by this approach. I can tell you the first time that we had confirmed to us the full amount that we would receive back was the night before the crucial Ecofin meeting on 7 November.

Q11 Chair: That might be only because the Treasury was not quite as alert as they normally are to these things, and that is something we might come on to in a moment.

Mr Osborne: Once we knew about this we were highly alert and then put a huge effort into sitting down with the Commission and going through the numbers and making sure that we got every single pound or euro of rebate that we could get and, indeed, that it would be paid in the year and simultaneously with the payments we would made and that this whole thing would be delayed as well from imminent deadline, a few weeks hence, that we were facing.

Q12 Chair: People have to make up their minds about whether this was a halving of a bill through a negotiation whose outcome was in doubt, or whether this was a technical clarification of how the EU law operates in a somewhat unusual area.

Mr Osborne: This was not a technical clarification. This was a hard-fought negotiation. I do not want to suggest that that we had anything other than a good working relationship with the new budget commissioner. To add to the complication of all this, the budget commissioner changed halfway through the process, but Vice President Georgieva was constructive and engaged with us and I am grateful to her for helping us to resolve the situation in a much more satisfactory way than appeared to be the case at the beginning.

Q13 Chair: You did say that you did not know about it until a late stage, but former Commissioner Dominik said on 27 October, "The UK will benefit from the UK rebate for the additional payments in 2014 and in May 2015 when the UK rebate is recalculated", didn't he? So there was no doubt that this was going to be subject to a recalculation.

Mr Osborne: First of all, Chair, I do not think he ever made those remarks as it happens.

Chair: They are made up, are they?

Mr Osborne: No, I think he was supposed to say them but he did not utter the words. Anyway, that is what he—

Q14 Chair: What a curious situation. Could you just explain what that means?

Mr Osborne: As I understand it, it was claimed that he was going to say it but he did not actually say it. Anyway, I am happy to take this as what he wanted to say, even if he did not say it. As I understand it and, if you read the full context of this, he is referring to another part of the budget process. Indeed, when he did speak in public what he said was, "The UK, in around the middle of May 2015, will get an additional more than €500 million back concerning their rebate". Those were his words. Well, €500 million is not €1 billion and I think it rather proves the point.

Q15 Chair: If you just read his remarks, on the face of it, since he is referring to what appear to be the additional GNI payments, it is very difficult to conclude that he was referring to anything else. I am surprised that you have concluded he was referring to another part of the EU budget.

Mr Osborne: If you read his remarks, he appears to be referring—

Chair: I just read it out.

Mr Osborne: Or the remarks he said he was going to make. He was referring to "Draft Amending Budget 4" rather than "Draft Amending Budget 6", which was the one to do with the issue we are discussing. When he does speak in public he says, and I repeat, "The UK, in around mid-May of 2015, will get an additional more than €500 million back concerning their rebate". The point I am making is that we did not get €500 million back. We got €1 billion back. Whether the Commissioner is referring to this issue or not, the number he is using is half what we achieved.

Q16 Chair: I am sure you will disagree strongly—well, you will agree with part of this and then disagree with the other part. Getting an interest-free delay is a considerable achievement and worth something, but I cannot help feeling that strong message has been somewhat distorted by a claim that we got 50% back of this extra payment when it seems clear, as soon as you start looking at the agreements and rules set out by the EU, that money was coming anyway.

Mr Osborne: I do strongly disagree, although I welcome what you say about the interest-free delay.

Chair: Yes, it was a considerable achievement. I will just repeat it. It was certainly was.

Mr Osborne: I can assure you that it was not clear. You have to ask yourself this question. The Government was under considerable pressure over this sum of money, once it was announced, and if we had known then and there that we would only have to pay half of it, I think political self-interest would have led us to make that announcement then.

Q17 Chair: Maybe colleagues will explore that a little. You personally were busy with a lot of things, but the Treasury machine should have known about this and I think probably somewhere in the machinery there would have been somebody who had already grasped the importance of these corrections for the rebate.

Mr Osborne: At my suggestion, and with the support of our Permanent Secretary, the Treasury deployed a lot of resources into arguing our case in the strongest possible terms in Brussels and my colleague in the Treasury, Mark, the Director General for international business in the Treasury, was there in Brussels. I went to Berlin within a few days of this blowing up at the European Council to meet with the German, French, Italian, Spanish and Dutch finance ministers.

Q18 Chair: Once it was brought to your attention I am absolutely clear that you got on with it, at least as far as I am aware. You handled it well and you brought back a good deal for Britain. I have made a different point, which is I am not sure that the deal you said you brought back was quite as good as the one that in fact was achieved by those negotiations.

Mr Osborne: If I had known on the day it was announced that we were going to get a €1 billion rebate I would have announced that, but it was not clear.

Q19 Chair: I just wonder what the Treasury are up to. We might take a closer look at that.

Mr Osborne: Fighting for the British taxpayer is what the Treasury are up to.

Chair: There are so many important things to do that perhaps we will not have time.

Q20 John Mann: Mr Bowman, the DG project meeting was attended by which level of official from the Treasury?

Mark Bowman: The DG budget meeting on 17 October I guess you mean. It was attended by a junior official working for our Government representative in Brussels.

Q21 John Mann: How would you define "junior official"? What pay band are we talking about?

Mark Bowman: Below senior civil service level.

Q22 John Mann: Would you regard it as appropriate that that was a junior official?

Mark Bowman: Yes, that was the level of the meeting that was happening.

Q23 John Mann: You were not there yourself, obviously.

Mark Bowman: I was not there. This was a meeting of budget officials in Brussels attended by representatives of permanent representatives in Brussels, not from capitals.

Q24 John Mann: It as not a significant meeting that required a senior Treasury official?

Mark Bowman: It was not expected to be a significant meeting because no one was expecting the Commission to reveal these figures.

Q25 John Mann: The "DAB 4" figures for 2010, 2011 and 2013, the rebates, totalled €567 million. Am I correct in that?

Mark Bowman: The "DAB 4" figures, yes.

Q26 John Mann: Yes, so there was €567 million that was coming regardless of the historic GNI update.

Mark Bowman: "DAB 4" had been published earlier in the year.

John Mann: Yes. That was there. That is accurate?

Mark Bowman: That is correct, yes.

Q27 John Mann: For someone to suggest that it was not clear that the rebate was going to apply—Mr Bowman, you are aware of Council Regulation 1150/2000 in the Fontainebleau European Council 1984 decisions, are you?

Mark Bowman: I am aware of the case, yes.

Q28 John Mann: In your view then, there could not be any legal possibility, could there, that there would not be a rebate for 2014?

Mark Bowman: In terms of this additional payment, it was not clear that the rebate was going to apply. It was not mentioned in any of the Commission communications upfront. It was not clear. This was an unprecedented situation. We had never seen revisions of this scale going back so many years and there was absolutely no clarity at all that the rebate would apply.

Q29 Chair: There had been no communication from the Commission?

Mark Bowman: When the Commission came out with their request for the €1.7 billion payment, there was no mention from the Commission that the rebate would apply.

Q30 Chair: Did they make any mention that it might not apply?

Mark Bowman: No, there was no discussion of the rebate. We did not get confirmation from the Commission that the rebate would apply until the evening before the Ecofin on 6 November.

Q31 Chair: What led you to think it might not?

Mark Bowman: Because this was an unprecedented situation. We had never had an adjustment on this scale going back so many years.

Chair: It was the scale that was unprecedented.

Mark Bowman: The rebate is an exceptionally complex calculation, subject to legal interpretation.

Q32 Chair: But it always goes back a number of years, does it not? I am sorry to interrupt, John, but I think this is a crucial point of clarification. Again, I have the Council of the European Union document in front of me here. It sets out what will be done in previous years in some depth. It seems absolutely clear that this is going to be looked at. It would be extraordinary if it were not.

Mr Osborne: It is subject to negotiation with the Commission and it operates subject to legal challenge from other member states. It comes back to this central point. If everyone had been expecting the €1 billion rebate to apply, why did no one say so? Why did the Opposition at the time make all of its attacks and assumptions on the fact we would be paying the full amount?

Q33 Chair: The Opposition might have had it wrong, like it seems to me the Treasury initially—

Mr Osborne: We did not get it wrong. We argued hard for the British taxpayers' interests.

Q34 Chair: It says that "the updates"—and this is an update for previous years—"shall be proposed if the Commission has ground to believe that the initial forecast of the provisional calculation will differ significantly from the 'definitive calculation' of the UK correction to be proposed in the PDAB of year t+4". I know it all sounds very complex. It is very complex but, nonetheless, if you concentrate on it, it becomes clear that is what this is referring to. The fact the scale is unprecedented and the fact you are going back a large number of years, yes, both were unusual. However, if you look carefully at the rules, the rules have already made provision for it and I cannot understand why the Treasury—why don't I ask Mr Bowman this question. Why does the Treasury seem to have been so unsighted and did not have a note with the Chancellor immediately saying, "Chancellor, this allegation is being made about €1.7 billion but, do not worry, the rules provide for it to be subject to the full rebate"?

Mark Bowman: I repeat what I have already said. It was unclear at that stage that the rebate did apply. Obviously we hoped that the rebate did apply and we engaged very seriously with the Commission to establish that it did apply.

Q35 Chair: What gave you the impression it was unclear, Mr Bowman, bearing in mind you had these rules in front of you, which I must admit I do not think I had ever looked at before?

Mark Bowman: This was an unprecedented situation in terms of the scale of the adjustments and in terms of going back so many years. This is an incredibly complex part of the rebate calculation.

Q36 Chair: But it is the same complex part that has to be addressed or—

Mark Bowman: The rebate is calculated on the VAT base contribution to the EU. This element was obviously due to changes in GNI. There is a correction to the UK rebate, which is called the "UK adjustment", which is a complex formula that makes adjustments when there is a divergence between the GNI base and the VAT base. As I say, this is a very complex are and it was an unprecedented situation.

Chair: I have looked at the calculation.

Q37 John Mann: Chairman, this is getting significantly more worrying and disturbing now. We are all used to politicians claiming credit for things that perhaps they should not claim credit for. That would not be a first across many Governments going back many generations. That would not be unprecedented, but the suggestion that, the hint, Mr Bowman—and you are not clarifying this too clearly, so my questions are for you. The two words that you have mentioned now, three or four times, are "scale" and "complexity". The UK has a veto. Therefore, the principle of a rebate is not for negotiation. It is set out in documents that have been there for many years.

Mr Osborne: But it was not—

John Mann: No, I am asking Mr Bowman here. The fact that there is a different situation does not alter the principles of agreements. The UK has a veto. Therefore, unless the UK magnanimously decides that it is going to change the rules—

Mr Osborne: Well, it did under Tony Blair.

John Mann: —then there is a rebate and, with the documents there, unless your people and you are incompetent, you can pretty much calculate what that is going to be. This is not overly complex in terms of scale. On the principle there is not even an argument about this. Are you challenging in some way that the Treasury did not see that we are tied in by law on this and that, therefore, there is a rebate? Is that what you are arguing?

Mark Bowman: No. I am saying that when the Commission came forward with the request for €1.7 billion the Commission did not make clear that the rebate applied. We engaged very seriously with the Commission. We made the argument that the rebate should apply. It was not until 6 November that we established definitively that it would apply or got the confirmation from the Commission that it would apply.

Q38 John Mann: 6 November? Mr Dominik is confirming this on 27 October.

Mr Osborne: If you are relying on what Mr Dominik is saying, who was the acting budget commissioner, then you should read out all of what he is saying. He keeps referring to a rebate of €500 million. That is not €1 billion.

Q39 Chair: I must admit it was news to me that his remarks were so posthumously clawed into the record.

John Mann: Can I just quote from Mr Dominik on 27 October—because, Chancellor, you are wrong—so we can have the record corrected, if you would? He said, "The UK will benefit from the UK rebate for the additional payments". There is no ambiguity about what he said. There is no ambiguity about what the Commission's position on it is, was, and indeed can be. They have no choice. He spelled it out and it does seem to me you are digging deeper and deeper and dragging the Treasury officials into this, suggesting incompetence there. I do not believe they have that level of incompetence.

Mr Osborne: The Treasury have been highly competent and I believe we have successfully defended, in the circumstances, taxpayers' interests. I cannot help noting, Mr Mann, that you say Britain has a veto. We do have a veto when we do these multi-annual budget negotiations over the budget rebate, and it is absolutely scandalous that the last Labour Government gave up half of that rebate and British taxpayers are paying for it as a result, because we did indeed have an opportunity at that point to veto that change.

I will come back to the point you are making in this inquiry. The statement from Commissioner Dominik says, "Written 'Check Against Delivery' statement", and then when he speaks—and the clue is in what he says in the on-camera statement in the Commission press room—he says, "The UK, in around mid-May of 2015, will get an additional more than €500 million back concerning their rebate. We received €1 billion. We fought hard for that. We engaged both at the official and political level of the Treasury. I believe in the circumstances we have a good deal for Britain and, as I say, you can rely on us to go on getting a good deal for Britain, unlike our political opponents in this country who are happy to pay more to Europe.

Chair: Do you have one more question or are we moving on?

John Mann: No, I see no purpose in getting in an absurd political dialogue, which Mr Osborne is trying to do. I think we should stick to the facts.

Chair: Right, have another go at the facts, yes.

Q40 John Mann: Yes. Mr Bowman has confirmed on the record that there was no possibility legally of there not being a rebate on these new amounts.

Chair: No, I do not think he did say that.

John Mann: That is how I heard him and I am giving him the chance to confirm his answer.

Mark Bowman: I said that there was no certainty. When the Commission came out with their request, there was no certainty that the rebate did apply and we worked incredibly hard to establish that it did apply.

Q41 Chair: Mr Bowman did say that and I must admit, having looked at the papers, it seems to me pretty clear. I am surprised that if you were familiar with those papers, or whoever was responsible working to you, it was not already clear.

Mark Bowman: Well, the Commission did not mention the rebate when they initially came—

Q42 Chair: Why should they need to? It always applies. I do not understand the import of that response at all.

Mark Bowman: It was a very newsworthy event, so you would have thought the Commission would mention it if it was clear to them that it would apply at that stage.

Q43 Chair: One can understand they do not like the rebate very much. One can understand they would be a bit reluctant to put it into their opening remarks.

Mr Osborne: That is why Britain has to go and fight hard for its interests in Brussels, which is precisely what we do.

Chair: It certainly has to make sure that the law is applied and that is the question that we are trying to address today. You said that you protected British taxpayers' interests, and I strongly agree. I think you have come back with a very good negotiation, if I may say so, speaking personally. You have protected British interests extremely well. The question is: what exactly did you achieve in those negotiations that was not going to be delivered anyway?

Q44 Mr Love: Can I be clear, Mr Bowman? What happened in other years when there were adjustments to the GNI formula?

Mark Bowman: Adjustments in previous years have been on a completely different scale.

Mr Love: I understand the scale issue. I will come to that in a minute, but was there ever any ambiguity about paying the rebate?

Mark Bowman: They have been dealt with in a completely different way. What was unique about this occasion was the scale of the adjustment and the requirement for a so-called draft amending budget 6 to repay money back to member states. In previous years, this has been dealt with in terms of the monthly calculation that occurs for individual member states.

Q45 Mr Love: So you just assumed, because of the difference in scale, that somehow it would be dealt with differently?

Mark Bowman: And the number of years that it went back. The Commission decided to deal with it in a different way because of the scale of this and the fact that it went back for years. They specifically made a decision to introduce a draft amending budget that would return the extra payments to the Commission. In previous years, the sums have been much smaller and have been dealt with in terms of the monthly returns that member states make to the Commission.

Q46 Mr Love: Okay. I want to investigate timelines and a comment made by the Chancellor earlier on that this came out of the blue. Mr Bowman, when were you first informed that the UK was facing this surcharge?

Mark Bowman: Well, the UK was first informed at this DG Budget Committee meeting on 17 October.

Mr Love: We understand that.

Mark Bowman: Senior Treasury officials in the Treasury at senior level were informed on Tuesday, the 21st.

Q47 Mr Love: Tuesday, the 21st. Why was it not escalated sooner?

Mark Bowman: It was escalated by the Tuesday, and through the course of the Tuesday and on the Wednesday morning we prepared advice for the Chancellor and for the Prime Minister, and the Chancellor saw that advice on the Wednesday. I think what was unusual about this event was the way that the Commission had handled it, but also, of course, the fact that it was released unexpectedly to the *Financial Times* on the Thursday evening.

Q48 Mr Love: Let us just be clear of the timescales. Junior officials were informed at a meeting on Friday, 17 October. They informed you on Tuesday, 21 October.

Mark Bowman: On the Tuesday.

Mr Love: You prepared a note and that was delivered to the Chancellor's office on 22 October.

Mark Bowman: 22nd, yes.

Q49 Mr Love: Chancellor, when did you get informed about it? Was it that day?

Mr Osborne: That is when the advice came to me. The senior Treasury in London received the information on the Tuesday and I got the advice on Wednesday. The Prime Minister has confirmed he saw it on Thursday. I know lots of people have tried to interpret a lot of drama into it. That is how government should work: the Prime Minister receives the information on the advice of the Chancellor and then the Chancellor receives advice from the senior Treasury civil service. That is the orderly process of government.

Q50 Mr Love: There is a delay between you receiving it on Tuesday, the 21st, and the Prime Minister being informed on Thursday, the 23rd. Normally, I would say you are absolutely right, Chancellor, that is the smooth operation of government, but this was unusual. It was much larger. We are being led to believe that the scale was something that had never been experienced before. There was a great deal of ambiguity about it and, of course, there was the sensitivity of it being part of the European project. Why did you or your office not inform the Prime Minister earlier? We are told in the media that he was told on the way to a European meeting.

Mr Osborne: The Prime Minister had the European Council so he was being briefed for the European Council. This is the proper process of government. I would draw your attention to what the Italian Prime Minister said when he said he only found out about Italy's extra money towards the EU budget "last night". That is what he said when he was attending the council on the 24th. The Dutch finance minister has told his Parliament the size of the recalculation came as a complete shock to the Netherlands. It was a surprise to them. The idea that somehow in Britain this all happened on a slower timetable is just not the case. As I say, the proper process of government is that junior official informs senior official, advice is prepared for Chancellor, and then the Prime Minister is briefed for the European Council. I know that is disarmingly orderly and straightforward but that is how we run this Government.

Q51 Mr Love: It is disarmingly normal in the sense of if it had been a normal decision, but this was a very sensitive decision, not only because of the scale but because of the European context and the politics of the United Kingdom. I am certainly surprised. I suspect Committee members are surprised that the Prime Minister had to wait until he was virtually in the doorway of the meeting he was attending in Europe before he found out about the scale of the problem that they were facing.

Mr Osborne: I have just been questioned for 15 or 20 minutes on the complexity of this issue and all these documents you have been reading out, then the second half of the questioning is, "And by the way, why didn't the Prime Minister immediately know about all this?" The Prime Minister wants to operate on the basis of good advice. I want to operate on the basis of good advice. Mr Bowman and his brilliant team at the Treasury want to provide good advice. If there had been gaps of weeks between these events, but these are all taking place within 24 hours of each other. Again, this is the orderly process of government. Then the Prime Minister was well prepared for his European Council and we swung into action and were able to have an ECOFIN meeting, which by the way we secured at that council that this issue would be raised at ECOFIN. All of it was, as I say, dealt with in a two-week period.

Q52 Mr Love: I hear what you say in relation to this, but the reality is that you are mixing two things up. The complexity was about the rebate and the years going back and the scale, but the actual amount of the charge was known. That would be a political problem for the Prime Minister. Surely you could have informed him of the scale of the issue without getting into the detail.

Mr Osborne: I sat in Parliament for a decade and watched a Prime Minister and a Chancellor who did not speak to each other for years about these sorts of issues. In fact, notoriously, the Prime Minister, Tony Blair, did the entire rebate negotiations without discussing with his Chancellor what he was going to do. The Chancellor had to deploy a Treasury civil servant as a sort of spy in the Prime Minister's negotiating team at the time of those negotiations. That is disorderly government. Orderly government is Treasury receives information, advice prepared for Chancellor, Chancellor reads the information, the Prime Minister is informed and discussion is had, all in the space of two days.

Q53 Alok Sharma: Chancellor, I agree with you that what has happened here is disarmingly normal. I think you have described it in terms of the way the Government works. Mr Bowman, can I have one clarification? On 14 July, according to this timeline, the ONS notified HMT about the process for the UK GNI questionnaire and the change being implemented in historic GNI, but obviously not the precise impact of those changes on GNI. Given that at that point your officials at probably a junior level would have known that this was looking over a decade back at numbers, do you not think at that point somebody should have flagged it up with more senior officials and raised the issue that this could potentially be a material figure?

Mark Bowman: In order to do the calculation you both need to know what the GNI changes would be for the UK, but you also need to know what the GNI changes would be for all other member states. It was impossible to calculate the net impact of this until all of those figures came together, and that did not happen until October. The July point was a point of the process where the ONS was required to begin submitting their changes, but we did not know either the scale of the GNI changes in the UK or, more importantly, what the relative changes would be in all other member states that would impact on the final calculation.

Q54 Alok Sharma: Chancellor, you talked about the fact this was a hard-fought negotiation. Could you take us through the sequence of the negotiations that took place, how long they lasted, who participated from HMT and the Commission, just so that we can get a chronological understanding of these negotiations?

Mr Osborne: The negotiations really were on a twin track. The first was a set of negotiations with the Commission, which was undertaken by Mark and his team with the new Budget Commissioner Georgieva, and which involved me also telephoning her and then going to see her in Brussels during this period. That was one track. That was to do with the rebate as discussed and also whether the Commission would put forward proposals to delay the required payment on 1 December.

Secondly, because the delay would require the consent of the other 27 member states, the other track of the negotiation was to open discussions with the other member states, of course some of whom were significant beneficiaries of this so it was not clear that everyone's interests were aligned. I was anyway due to attend a meeting on international tax avoidance in Berlin, but used that meeting to get together a group of the German, French, Italian, Spanish and Dutch finance ministers to discuss this issue because they were the largest member states but also some of those most affected, particularly the Italians and the Dutch. I was also conducting that negotiation and then the two things came together at the ECOFIN on 7 November. I physically met with the Budget Commissioner on 6 November in her office in Brussels.

Q55 Alok Sharma: Okay. This was done in parallel to ECOFIN, it was not discussed at ECOFIN, is that right?

Mr Osborne: There was a lengthy discussion at ECOFIN about the need to delay the payment, that this would require a permanent amendment to the budget regulations. This was the big challenge and I needed everyone's consent to do that. To be fair to large beneficiaries like France and Germany, they were very constructive in those discussions.

Chair: Yes, because they were going to be footing the bill for it.

Mr Osborne: Well, they were going to be recipients of this money. I have to say we were unpleasantly surprised by all of this and they were pleasantly surprised. They, too, had no idea that they would be receiving this money.

Q56 Chair: Still, you were bringing home some bacon in the negotiations to delay this?

Mr Osborne: One of the challenges was it was not clear that all the recipients of the money would be happy with a delay, and that was one of the challenges of the negotiation.

Q57 Alok Sharma: We have heard that these are very complex calculations and obviously on this occasion it went back many years. To avoid something like this happening again, what discussions have taken place at ECOFIN or any other forum to make sure that member states have more clarity and certainty about what may be coming around the corner?

Mr Osborne: One of the things that we achieved—but I have to say there were lots of other member states who supported this—was a permanent change. When there are very substantial future revisions, if there are very substantial future revisions, then there is the opportunity to delay, to pay instalments, for this to be interest free. That was the agreement in the ECOFIN on 7 November.

Q58 Steve Baker: If I pause and cast my mind back to the Prime Minister's excellent Bloomberg speech, I find myself asking: isn't the truth that this whole debacle is a symptom of a thoroughly unsatisfactory relationship between the United Kingdom and the EU?

Mr Osborne: I think our relationship is unsatisfactory. It is why you and I want to see reforms and we want to see a referendum. I would say there is both the unsatisfactory nature of these processes; I think there is also just the unsatisfactory nature of treating British taxpayers as if you can just flip them with a €1.7 billion bill and expect them to pay up in a few weeks' time. This is hard-earned money that our constituents pay in taxes. I think it also speaks to a broader problem in the way that the European Union institutions treat public money on some occasions.

Q59 Steve Baker: Is it conceivable that from the European Union's point of view this was just a mechanical process of law, that they were just running through the rules, and that whereas for us it seems like a diplomatic triumph to have clarified the rules, secured a billion euro rebate, from the EU's point of view this was just as if we were changing the rules on a council and we had simply no opportunity to—

Mr Osborne: In the conversations I had with the commissioner and others, what was clear was this thing had ground through the bowels of the commission. Some relatively junior officials appeared to have taken some decisions at the tail end of a commission that anyway was ceasing, the Barroso Commission, and with little thought or consideration to the consequences not just on ourselves but other member states and their taxpayers. That is not a proper way to treat people's money and not a proper way to treat member states in the European Union.

Q60 Steve Baker: You have answered my question; it does speak volumes about the way that our taxpayers and voters are treated. Moving this on a little bit, this whole thing has been greeted with considerable scepticism. Do you think that the whole debacle might have undermined the credibility of future claims that a good deal has been secured for the British taxpayer?

Mr Osborne: No, I think it is a demonstration that, when this Government and this Prime Minister and his team set their mind on achieving outcomes for the UK, that people do not think are achievable, we can surprise on the upside. We have done that by getting Britain out of the Eurozone bailouts that the previous Government signed us up to. The Prime Minister achieved that in the European Union budget deal he negotiated because, of course, all of this discussion takes place against the context of a decline in the European budget that he succeeded in negotiating. I think it is a demonstration that, if you fight hard for your interests and you are prepared to engage with other member states, then you can come up with a better arrangement than the one you started with.

Q61 Steve Baker: In retrospect, are there lessons to be learned about the importance of the legal detail that the European Commission is going to apply to us? Perhaps, Mr Bowman, you might like to answer that. It does seem from what the Chairman said that from the European Union Commission's point of view, particularly with junior officials being assigned to the case, for them it was just a simple matter of law. Do you think that Treasury officials need to learn lessons about the importance of legal details within the EU?

Mark Bowman: The legal details are obviously always very important. I think what the Chancellor says, that this was dealt with at a relatively junior level in the Commission, and I think there was widespread acknowledgement by the new commissioner and by all member states that the technical people in the Commission dealing with this had not understood the political sensitivities. I know that the new commissioner, Vice President Georgieva, is determined to resolve this in the future and improve the way—

Q62 Steve Baker: I do think that speaks volumes. Finally, Chancellor, what lessons does this hold for us as we potentially move into an era where we are looking to renegotiate our relationship?

Mr Osborne: Well, that you have to fight hard for your interests and you have to engage, but you can achieve a positive outcome and get a better arrangement than the one you started with.

Chair: Two colleagues want to come in with quick rejoinders: John Mann and then Alok Sharma.

Q63 John Mann: Chancellor, you described the EU's attitude and behaviour—I think that is what you were referring to—as unsatisfactory and symbolic of how the EU treats public money. I think I am phrasing that right and accurately. With that in mind, obviously it is very important for this Committee to take a bit of a look at what the EU is doing. Could you, therefore, provide us with all the written documents that were presented to yourself and to UK Government officials on 17, 22 and 23 October and 6 and 7 November?

Chair: I think that is something we might need to discuss because some of those might be internal policy documents. There may be some documents that fall into a category that will not prejudice future policymaking.

Mr Osborne: I am certainly happy to look at what we could provide the Committee with.

Chair: Yes.

John Mann: I am not asking for documents that you are presenting. I am asking for documents that the EU were presenting.

Mr Osborne: The document that we were presented with or the junior—

Chair: I think that is a discussion you had best take outside this room.

Q64 Alok Sharma: Mr Bowman, we discussed that this calculation is incredibly complex and, of course, in terms of process, it starts off with Eurostat notifying the ONS and all the rest of it. That applies in every European Union country as well. What are the checks and balances in place for the UK to know that the stats that are being produced or put forward by other nations are accurate?

Mr Osborne: This is a good question. This was a question that I think particularly exercised my Dutch colleague as well. There is a procedure for the European Commission to challenge the quality of the statistics of member states if they feel those statistics are not accurate. I think there was a famous case with Greece in the period leading up to its joining of the euro and, indeed, subsequent to the joining of the euro. There is only a procedure for challenging the statistics. Eurostat is supposed to provide the international quality assurance. Of course, one thing we have not discussed is that if we were to uncover mistakes in the calculations, then we would be able to bring these to the attention of the Commission and achieve a change or a refund.

Q65 Alok Sharma: Is there a process for that?

Mr Osborne: Of course, we are making sure that the numbers have been properly calculated. I do not have an error to report today, but we are—

Q66 Alok Sharma: One final question. One of the reasons that all this recalculation took place is because of the inclusion of the black economy. Whose decision was it to include the black economy? How do you come up with figures for the black economy, whether it is in the UK or in any other country?

Mr Osborne: I am happy to provide a detailed note to the Committee on this, but my understanding is that there are a set of international statistical standards that national statisticians are asked to comply with. They can challenge those standards. There are various standard-setting committees. Of course, they can be interpreted potentially in different ways in different member states or different countries, which is where the quality control comes in. Ultimately, we have an independent Office for National Statistics with an apparatus above it that protects that independence, as this Committee is well aware, when people like Andrew Dilnot enter into the public debate. It is ultimately their decision and I think it is a good thing—however sometimes frustrating their decisions can be—that we have independent national statistics.

Chair: Thank you very much for coming to give evidence this afternoon. It has been a very long session; it started shortly after 2.30 pm. I realise one or two questions on the Europe front may have been occasionally a bit uncomfortable, but I think it is very important we get clarification over what we have agreed out there and we have probably now done that. Have a very good Christmas, Chancellor, and Mr Bowman, too.

Mr Osborne: Happy Christmas.