I committed to write to you, and your fellow members of the Treasury Committee, following my evidence session on 25 April.

UK funding in the financial settlement

I was asked a number of questions on UK receipts under the financial settlement agreed as part of the draft Withdrawal Agreement, and Government’s commitment to replacing EU funding in the longer term.

The EU’s funding system works on a seven-yearly cycle, known as the Multiannual Financial Framework. The current period runs to 2020, although some commitments made to recipients will be paid out over a longer period, with some running into the middle of the next decade. Some EU programmes are administered by the government, with the ultimate beneficiaries in the private sector – primarily agricultural funding and structural funds – while the remainder are directly administered by the European Commission – notably funding for research, which goes to a mix of the public and private sectors.

The financial settlement is based on both parties honouring the commitments made during this budget period. As I set out in my letter to the committee on 24 January, under the terms of the financial settlement the UK will remain in the budget in the years 2019 and 2020 and benefit from the implementation of the budget as if it had remained a Member State. This means that any UK recipient – public or private – who would have benefited from funding from EU programmes over the current budget cycle will continue to receive that funding.

This agreement is based on meeting mutual commitments on both sides: the settlement ensures the EU will continue to meet its commitments to UK farmers, regions, businesses and researchers for the entire lifetime of the existing programmes.

HMG guarantee

The financial settlement has now been signed-off by both UK and Commission negotiators in a draft Withdrawal Agreement and welcomed by the EU-27 at March European Council. In the event that the Withdrawal Agreement is not ratified, the guarantee that the government made to recipients in 2016 will come into effect. This means that beneficiaries of EU funds can be certain that their funding will continue. This guarantee applies to the following EU funded projects:

- Structural and investment fund projects signed before we leave the EU, so long as they are good value for money and in line with domestic strategic priorities.
- The payment of awards where UK organisations successfully bid directly to the European Commission on a competitive basis for EU funding projects while we remain in the EU.
The current level of agricultural funding under CAP Pillar 1 until December 2020.

**UK spending decisions post-2020**

After December 2020, the UK will stop participating in the EU budget and ongoing payments from both sides will start to wind down. Decisions on how taxpayers’ money will be spent after 2020 will be made in the UK, based on our own domestic priorities. The Government will take a longer-term look at spending through the Spending Review in 2019 to ensure it is in line with policy objectives, and make decisions at that time.

The EU currently has no new spending plans beyond 2020. We expect proposals for the next (2021-2027) budget cycle to be issued shortly. The Prime Minister has set out that in some areas the UK would seek to continue to participate in EU-funded activities after 2020, where those activities are to the UK and EU’s mutual advantage, such as science, education and culture.

We have also already set out a number of priorities to provide certainty to stakeholders who have been historically in receipt of EU funds.

The Government has confirmed that the UK will maintain the same cash total in funds for farm support until the end of this Parliament. This commitment will reflect the average annual funding provided for farm support under both Pillar 1 and Pillar 2 of the EU’s 2014-20 Multiannual Financial Framework.

The Industrial Strategy White Paper set out that “following the UK’s departure from the European Union, we will launch the UK Shared Prosperity Fund. We intend to consult [in 2018] on the precise design and priorities for the fund.”

The exact publication date of the next Spending Review will be confirmed in due course.

Finally, I said I would confirm to the Committee my statement that the Government has made a commitment to begin the consultation on future agricultural arrangements. I should clarify that the Department for Environment, Food and Rural Affairs is indeed currently consulting on future agricultural policy in England. The consultation closes on 8 May 2018.

**Help to Buy Scheme**

On 25 April the Committee raised the issue of reports that some of the properties bought through the Help to Buy scheme that have similar cladding to what was used for Grenfell have reduced in value. The Committee asked how many properties have been affected in this way and about the associated costs. I can confirm that my department have asked the HCA to write to the Committee with the information they have on this issue.
HMRC’s decision not to execute a French request for a search warrant on Lycamobile’s offices in the UK.

You asked when HM Treasury was first made aware of this issue. I can confirm that this was on 16 April 2018.

The Committee asked whether I have had dinner with the Chairman of Lycamobile, Allirajah Subaskaran. I have not had dinner with Mr Subaskaran. He has been a guest at large political events that I have attended – specifically the Conservative Black & White Party in 2014, the Conservative Summer Party in 2015, and the Conservative Black & White Party in 2016. According to Conservative Party records, Mr Subaskaran was not a guest at my table for these events.

Corporation tax and hospital trusts

My officials have passed on to HMRC the concerns raised around hospital trusts in relation to corporation tax. I understand that HMRC will be responding to the Committee shortly on this issue, following similar questions raised when they were before the Treasury Sub-Committee on 17 April.

The Rt Hon. Philip Hammond MP, Chancellor of the Exchequer
May 2018