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The UK's Contribution to the EU Budget: A Brief Guide

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Introduction

Like all Member States in the European Union (EU), the UK contributes to its budget. There is a great deal of misunderstanding about how much the UK pays and how this compares to both the contribution made by other Member States and to various other kinds of public spending.

The UK's net contribution to the EU budget is not a measure of the economic benefits of membership, which vastly outweigh it. To take one example, the UK's membership of the Single Market has been a crucial factor in attracting investments of £540 billion (or £148 million every day) by foreign companies over the last decade.¹

The EU Budget

The EU Treaties require the EU to balance its books – that is, bring in the same amount of money as it wants to spend (deficit financing is forbidden). It does this by agreeing ceilings on expenditure for a seven year period (the current period runs from 2014 to 2020) by unanimity and by having tight controls. A budget is set for each individual year but total spending across the seven years must stay within the overall agreed total.

In the current period, the EU's seven year spending will be less than one per cent of the gross national income of the EU Member States. This is less than it was in the past; the UK successfully argued that spending over the period 2014-20 should be lower than that for the previous seven years. The figure finally agreed was in cash terms €35 billion less than that for 2007-13. The 2014-20 ceiling was the first time the EU had agreed that its planned spending should fall. The current spending plan also has different priorities, putting more resources into innovation, science and research (where the UK does disproportionately well) and less on regional aid and the Common Agricultural Policy.² To give an idea of the overall share of public spending devoted to financing the EU, the ceiling on EU spending in 2014-20 is less than one per cent of the gross national income (GNI) of the 28 Member States. National spending by Member States is usually somewhere between 40 and 50 per cent of their GNI.

The UK Contribution

Gross national contributions paid into to the EU budget are largely based on economic performance, meaning that, generally speaking, the larger a country's economy, the larger

¹ Cited in *HM Government, Why the Government believes that voting to remain in the European Union is the best decision for the UK*, April 2016, p. 4

² See HM Treasury, *European Union Finances 2015: statement on the 2015 EU Budget and measures to counter fraud and financial mismanagement*, Cm 9167, 8 December 2015, p. 5

its share of the budget. In the case of the UK, this amount was estimated to be £17.79 billion in sterling in 2015. There are then adjustments made for various factors; some of these, including the UK's rebate (explained below) are specific to individual Member States.

The UK Rebate

The UK rebate reduces the net cost to the UK of contributing to all EU expenditure within the other Member States which joined the EU before 2004, and to EU expenditure on agriculture in Member States which have joined subsequently. The calculation is complex, reflecting changes in the EU's revenue ('Own resources') system since the rebate was first negotiated at a summit in Fontainebleau in 1984.³

The total amount the UK received in rebate between 1984 and 2013 inclusive was £114.5 billion, a substantial sum and a demonstration of how effective the rebate has been in reducing the UK's contribution.⁴

Net Contributions

All Member States make a contribution to the EU budget; the bulk of the budget is, in turn, spent in Member States. For example, the UK Treasury has estimated that in the UK financial year 2015-16 the EU budget will have contributed more than £2.3 billion to support British farmers plus a further £600 million for rural development, over £850 million for regional development and £1.4 billion for research and other activities carried out by universities and the private sector.⁵ Deducting all the monies received back from the gross amount paid produces the net contribution. In 2015 this was estimated to be £7.07 billion for the UK.⁶ This is in line with the average net contribution of £7.1 billion for the years 2010-14.⁷

The UK contribution compared

How does the UK's gross contribution (allowing for the rebate) compare to that made by other EU Member States? In cash terms, in 2015 it was the fourth largest contribution, behind Germany, France and Italy. Calculated per head of population, using the most recently available statistics, the UK is the ninth largest contributor per capita:⁸

³ This is a highly technical issue: more information can be found in Richard Wild, *GDP, GNI and the UK's EU budget contributions: an explanatory note*, Office for National Statistics, 8 September 2015

⁴ Figure in a letter from Lord Ashton of Hyde to Lord Hannay of Chiswick, August 2015; cited in David Hannay, 'Why not have another go at the EU budget?', *British Influence*, 24 September 2015

⁵ HM Treasury, *supra* n. 2

⁶ The figures for gross and net contribution in 2015 come from HM Treasury, *ibid.*, p.14, table 3.A, taking into account the estimate for private sector receipts in para 3.7; the figure of £350 million a week often cited is based on an erroneous calculation

⁷ Cited in HM Government, *HM Treasury analysis: the long-term economic impact of EU membership and the alternatives*, Cm 9250, 18 April 2016, p. 68, Chart 1

⁸ Figures in a letter from Lord Ashton of Hyde to Lord Hannay of Chiswick, 30 July 2015

Member State	Post-rebate gross contribution (€million)	Population (million)	Post-rebate gross contribution per capita (€)
Denmark	2,899	5.6	517
Sweden	4,212	9.6	439
Finland	2,159	5.4	397
Netherlands	6,552	16.8	390
Austria	3,191	8.5	376
Germany	29,376	82.1	358
France	23,292	65.9	353
Italy	17,168	60.6	283
United Kingdom	17,068	64.1	266

Although not a Member State, Norway, in order to get (limited) access to the Single Market and some EU programmes, contributes to the EU budget. It is now the tenth largest contributor.⁹

Another way of looking at the UK's contribution is as a share of gross national income compared to that of the other Member States. On this basis, the UK pays the least of any Member State. As Professor Iain Begg has put it:

Although the scale of the UK contribution to the EU budget is often highlighted, the evidence is clear that, once adjusted for the size of the economy the UK pays the least.¹⁰

The UK's budget contribution is often compared to domestic public spending. One example would be that the £45.2 billion in interest on government debt paid by the UK in 2014-15 was more than five times the UK's net contribution to the EU budget.

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⁹ CBI, *Our Global Future*, 28 October 2013, p. 142

¹⁰ Iain Begg, *Who pays for the EU and how much does it cost the UK?*, *The UK in a Changing Europe*, 27 January 2016, p. 8



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