

Research Briefing

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# The UK's contribution to the EU Budget



## Summary

- 1 The UK and the EU budget
- 2 The UK's rebate
- 3 UK payments to the EU after Brexit

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## Summary

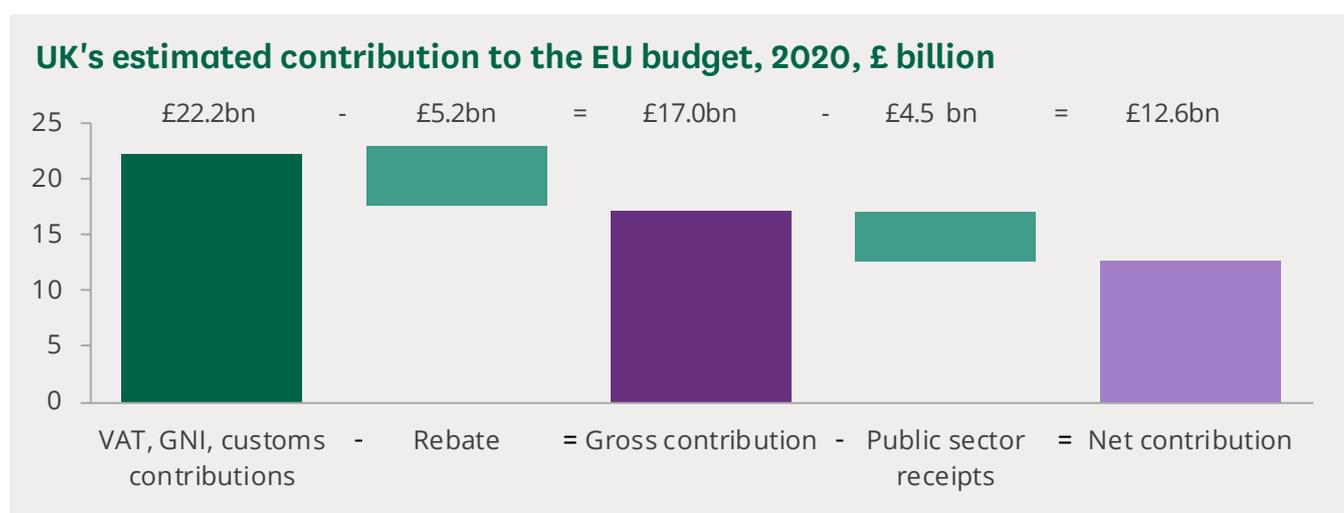
### The UK's contribution to the EU budget

As a member of the EU the UK made payments, or contributions, to the EU budget. The UK also received funding, or receipts, from the EU for various agricultural, social, economic development and competitiveness programmes.

The UK received a rebate from the EU which reduced its contribution. The rebate aimed to correct the issue of the UK making relatively large net contributions to the EU.

The UK formally left the EU on 31 January 2020. During the remaining 11 months of 2020 the UK participated in the EU Budget largely as if a Member State, as was agreed in a 'financial settlement' between the UK and EU.

In 2020 the UK made an estimated gross contribution (after the rebate) of £17.0 billion. The UK received £4.5 billion of public sector receipts from the EU, so the UK's net public sector contribution to the EU was an estimated £12.6 billion. The published figures don't split the contribution between the month in which the UK was an EU Member State and the eleven months when it was in the transition period.



Source: HM Treasury. [European Union Finances 2020](#), July 2021, [Table 3.A](#)

There are different ways to measure the funds the UK received from the EU. The above figure of £4.5 billion includes only funding allocated to UK

government to manage. However, the European Commission also allocates funding directly to UK organisations, often following a competitive process. In recent years these funds have been worth around £1.5 billion - £2.5 billion to the UK. Accounting for these receipts results in the UK making an average net contribution of around £7-7.5 billion per year between 2016 and 2019, rather than the £9.2 billion calculated by HM Treasury.

## Brexit and the UK's contribution to the EU

### A financial settlement for the UK's withdrawal

The UK and EU have some outstanding financial obligations to each other that they are settling through a 'financial settlement'. The obligations arise from the UK's participation in the EU budget and broader aspects of its EU membership.

The financial settlement sets out the financial commitments covered, the methodology for calculating the UK's share and the payment schedule. Forecasts from the Office for Budget Responsibility and the Treasury suggest that the settlement will have cost around £30-35 billion once the final payment is made, possibly in the 2060s. The cost is uncertain and depends on future events, such as future exchange rates.

More detail is available in the Library briefing [Brexit: the financial settlement](#).

### Payments after leaving the EU

The UK may continue to participate in some EU programmes, following the deal reached over the UK-EU future relationship (The UK-EU Trade and Cooperation Agreement). Such programmes include [Horizon Europe](#), which is the EU's research and innovation programme. If the UK does participate in any programmes, it will make a financial contribution. Any such payments are not part of the financial settlement.

### The net contribution doesn't measure the overall economic benefit/cost of EU membership

The UK's net contribution shouldn't be confused with an assessment of the overall economic benefit, or cost, to the UK of EU membership. The net contribution simply looks at the direct flows of contributions to the EU Budget from the UK and spending, or receipts, from the EU to the UK. It doesn't, for instance, consider benefits to UK businesses from being in the EU's single market. Several bodies have attempted an economic cost-benefit analysis of the UK's EU membership, some of which are discussed in section 6 of the Library's briefing [In brief: UK-EU economic relations](#).

The Library briefing [Brexit deal: Economic analyses](#) summarises findings from studies into the potential impact of Brexit on the economy over the short- and long-term.

This briefing focuses on the UK's involvement with the EU budget. The Library briefing [A guide to the EU budget](#) discusses how the EU raises and spends money.

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# 1 The UK and the EU budget

## 1.1 Introduction

As a Member State the UK made payments, or contributions, to the EU budget. The EU also spent money in the UK, through various funding programmes. The EU's programmes include funds that support agriculture, develop regional economies and improve competitiveness.

In common with all Member States, the UK contributed to the EU budget through three sources:

- it collected customs tariffs and levies on behalf of the EU. 20% of the tariffs collected are kept by Member States to cover the cost of collection.
- it contributed a percentage of its adjusted, or harmonised, VAT-base.
- it contributed a percentage of its Gross National Income (GNI).

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The UK contributed to the EU budget in the same way as other Member States but got a rebate on its contribution.

The UK received a rebate on its net contribution. The rebate was introduced in 1985 to correct the issue of the UK making relatively large contributions to the EU budget while receiving relatively little receipts from it. The rebate was deducted from the UK's contributions before its payments to the EU budget were made.

There is more on EU spending, revenue raising and budget processes in the Library briefing [A guide to the EU budget](#).

### **Brexit and the UK's financial transactions with the EU**

The UK left the EU on 31 January 2020 so no longer makes payments to the EU as a Member State. However, the UK and EU have some outstanding financial obligations to each other that they are settling through a financial settlement.

The UK may also make separate payments to take part in some EU programmes.

[Section 3](#) of this briefing discusses both issues in further detail.

## 1.2

## UK contributions and receipts

The UK's estimated gross contribution (after the rebate) was £17.0bn in 2020.

The UK's public sector received an estimated £4.5bn of funding from the EU in 2020. The UK's net contribution, therefore, was £12.6bn.

The UK's net contribution to the EU budget can be measured in different ways. Here we focus on HM Treasury's approach. Estimates from the European Commission – which include a wider definition of receipts – are provided in section 1.3.

### Gross contribution

The UK was a Member State during January 2020 and contributed to the EU budget as such. After leaving the EU on 31 January, it participated almost as if it were a Member State. This approach during the 'transition period' was agreed in the 'financial settlement' between the UK-EU (see section 3).

HM Treasury estimate that in 2020 the UK made a gross contribution of £17.0 billion to the EU budget, with the rebate accounted for. The EU do not pay the rebate to the UK in a separate transaction, it is deducted from the contributions the UK makes to the EU.<sup>1</sup>

In keeping with all Member States, most of the UK's contribution came from its Gross National Income (GNI)-based contribution. GNI contributions are used to balance the EU's budget and therefore make up the difference between the EU's spending and its other revenues.

The published figures do not split the contribution between the month in which the UK was an EU Member State and the eleven months when it was in the transition period.

### EU receipts and the net contribution

The UK received around £4.5 billion of public sector receipts from the EU in 2020. Therefore, the UK's net contribution to the EU budget was £12.6 billion.

The majority of the UK's receipts from the EU were for agriculture.

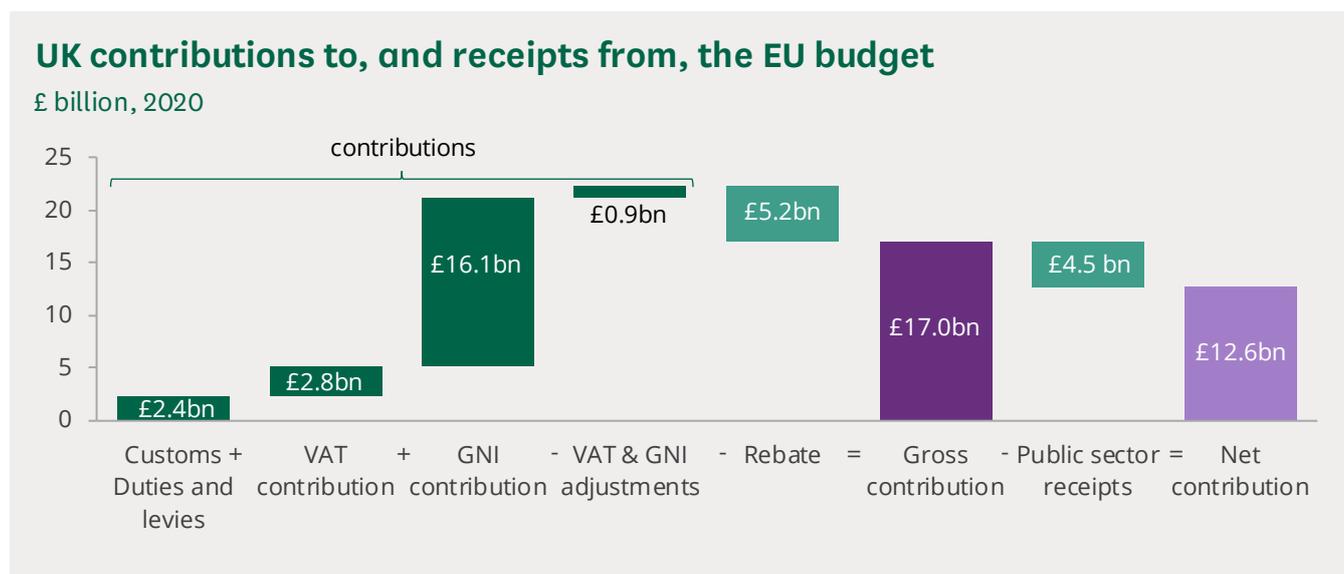
As the Library briefing [EU funding in the UK](#) discusses, the majority of the receipts received by the UK were for agriculture. The European Agricultural Guarantee Fund (EAGF) – which pays subsidies to farmers – was the largest fund.

Much of the rest of the UK's EU receipts came from the European Structural Funds. The Structural Funds – largely made up of the [European Regional Development Fund](#) and [European Social Fund](#) – support economic development, skills, employment and training.

HM Treasury's measure of EU receipts does not include all the funding that UK organisations receive from the EU. HM Treasury include only funds allocated to the UK government to manage. Funds allocated directly to UK

<sup>1</sup> The rebate is paid a year in arrears.

organisations by the European Commission, such as through [Horizon 2020](#), are not included by HM Treasury.



Source: HM Treasury. European Union Finances 2020, July 2021, [Table C.3](#)

### UK contributions to, and public sector receipts, from the EU Budget

£ million

	2016	2017	2018	2019	2020
<i>UK contributions to the EU</i>					
Customs duties and levies	2,463	3,172	2,608	2,711	2,352
VAT contributions	2,677	3,040	3,074	2,966	2,822
GNI contribution	11,856	12,154	14,267	14,044	16,077
VAT & GNI adjustments	-	258	-2,505	-777	990
UK rebate	-3,878	-5,633	-4,247	-4,516	-5,201
<b>Gross contributions (after rebate)</b>	<b>13,118</b>	<b>12,993</b>	<b>13,198</b>	<b>14,430</b>	<b>17,043</b>
Total Public Sector Receipts	3,493	4,084	4,279	5,022	4,461
<b>Net Contribution</b>	<b>9,626</b>	<b>8,909</b>	<b>8,919</b>	<b>9,408</b>	<b>12,583</b>

Source: HM Treasury, European Union Finances 2020, [Table C.3](#)

As the above table below shows, the UK's annual net contribution to the EU budget was volatile. Aside from exchange rate volatility, there are reasons for this both in terms of receipts and contributions.

On the contributions side, the UK's GNI-contribution fluctuates most noticeably. Member States' GNI contributions are used to ensure the EU's budget balances – that is, they cover the gap between the EU's spending and

its non-GNI revenues. This means the GNI contribution is susceptible to changes in the EU's spending from one year to the next and changes in the EU's other sources of revenue, including any surplus carried over from the previous year.

On the receipts side the flow of funding from the EU is not consistent from one year to the next.

As the rebate is calculated on the UK's net contribution, it shouldn't be surprising, given the volatility in both contributions and receipts, that the UK's rebate also fluctuates.

## Direct funding from the European Commission

UK organisations receive around £1bn - £2bn a year directly from the European Commission.

Funds managed directly by the European Commission are generally aimed at improving competitiveness across the EU. They include funding for research and innovation ([Horizon 2020](#)), infrastructure ([Connecting Europe Facility](#)), education, training, youth and sport ([Erasmus+](#)), cultural and creative industries ([Creative Europe](#)) and support for small businesses to access finance and markets ([COSME](#)).

Data on the receipts received from these programmes are less timely, however in recent years they have been around £1.5 billion - £2.5 billion a year. Including these receipts results in the UK making an average net contribution of around £7-7.5 billion per year between 2016 and 2019, rather than the £9.2 billion calculated by HM Treasury.<sup>2</sup>

### Box 1: Who administers funding?

EU funding coming to the UK takes two forms:

- **Funds allocated to the UK government to manage** – this covers the majority of the EU's funding and is managed by national and regional authorities. In the UK, this is largely done through the structural and agricultural funds.
- **Funds allocated directly by the European Commission to UK organisations** – these funds are not allocated to Member States. In general, organisations apply directly to the Commission for funding from these streams, often on a competitive basis following calls for applications.

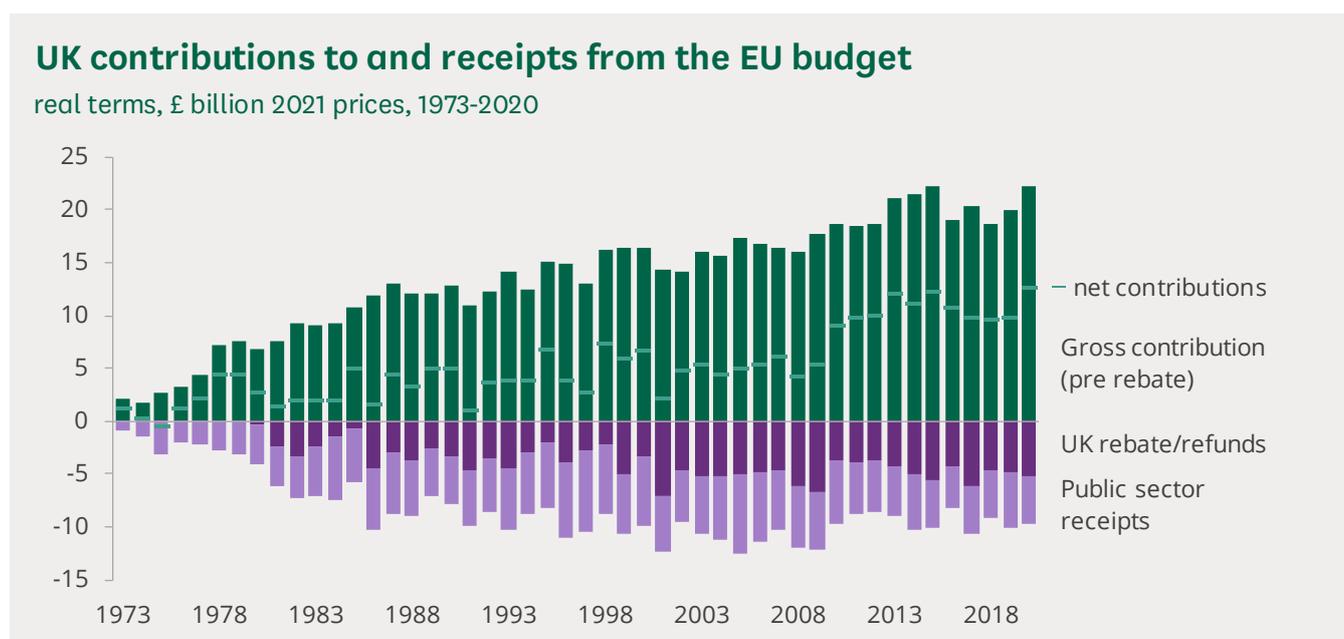
<sup>2</sup> HM Treasury. European Union Finances 2020, July 2021, [Table B.2](#) and [C.3](#) (and previous editions)

## The UK's contribution since 1973

The chart below shows the UK's contributions and receipts from the EU since 1973, using HM Treasury figures for calendar years. As these are the Treasury's figures they do not include funding allocated directly by the Commission to UK organisations. The figures are in real-terms – they have been adjusted for inflation. The data are available in [the excel accompanying this briefing](#).

The UK's net contribution was volatile but grew during its membership of the EU. Over time, the priorities of the EU budget changed and the policies undertaken by it grew as did the EU's membership. From 2009, there was a noticeable step change in the size of the UK's net contribution. This was largely a result of the UK agreeing to changes in the way that its rebate (see section 2) was calculated. The UK agreed to the change to ensure it contributed to the costs of enlarging the EU.<sup>3</sup>

As discussed previously, the UK participated in the EU budget as a Member State for one month of 2020. For the remaining 11 months – which was known as the transition period – it participated almost as if it were a Member State.



### Notes:

The UK participated in the EU budget as a Member State for one month of 2020. For the remaining 11 months – which was known as the transition period – it participated almost as if it were a Member State.

The coronavirus pandemic caused unusual movements in the GDP deflator, which is used to measure inflation in the economy. This means that for 2020 and 2021 it does not provide an accurate representation of price changes over this period. However, due to a lack of an obvious alternative, we have continued to use the GDP deflator to calculate real terms figures.

### Sources:

HM Treasury, [European Union Finances 2020](#), July 2021 (and previous editions). HM Treasury. [GDP deflators at market prices, and money GDP March 2022 \(Quarterly National Accounts\)](#), 31 March 2022

<sup>3</sup> HM Government. Review of the Balance of Competences between the United Kingdom and the European Union EU Budget, October 2013, [Chapter 1](#)

## 1.3

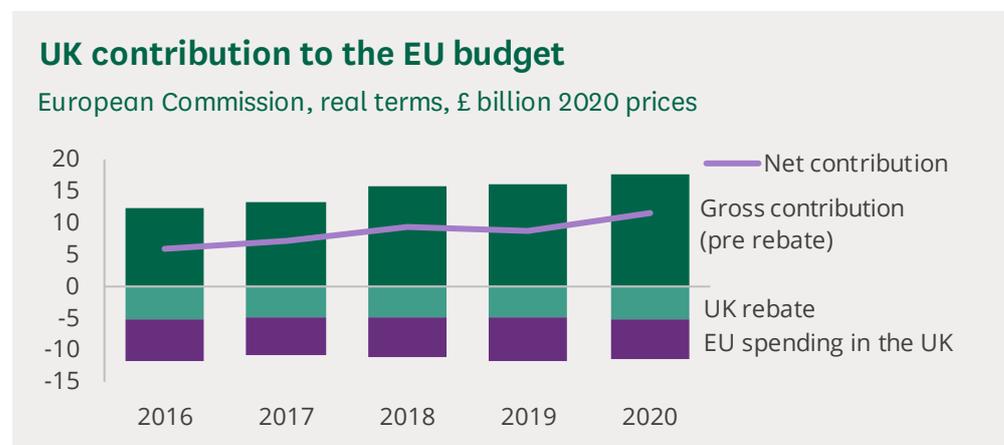
## The European Commission's figures

The European Commission publish data on EU spending in Member States and Member States' contributions to the EU budget. The Commission's approach is different to that of HM Treasury and, therefore, gives different figures:

- the Commission includes all receipts going to the UK, including those the Commission directly allocates. These are not included in HM Treasury's figures (see section 1.2)
- the Commission attempt to match transactions to a particular EU budget year. HM Treasury's figures are based on cash flow within the year, rather than which EU budget they're associated with

The chart below provides the Commission's data on the UK's net contributions. The Commission generally reports lower net contributions compared with HM Treasury. The lower net contributions are largely a result of the Commission including receipts directly allocated by them to UK organisations.

The Commission estimate that the UK made a gross contribution (after the rebate) of £17.5 billion in 2020 and received around £6 billion of receipts from the EU. The Commission, therefore, estimate that the UK's net contribution in 2020 was around £11.5 billion.



Sources: European Commission. [EU spending and revenue](#) (accessed on 8 June 2022); HMRC. [HMRC yearly average and spot rates](#); HM Treasury. [GDP deflators at market prices, and money GDP March 2022 \(Quarterly National Accounts\)](#), 31 March 2022

## Member State comparisons

Member States' net contributions can be compared using the Commission's data. In 2020, the UK made the third largest net contribution to the EU budget

in absolute terms, and the fifth largest net contribution per head of population.<sup>4</sup>

Generally speaking, richer Member States are net contributors to the EU budget – they contribute more to the EU budget than they receive from it. Poorer states are generally net recipients – they receive more from the EU budget than they pay in. Section 3 of the Library briefing [A guide to the EU budget](#) provides further details.

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<sup>4</sup> European Commission. [EU spending and revenue](#) (accessed on 8 June 2022)

## 2

## The UK's rebate

As discussed previously the UK received a rebate on its net contribution to the EU budget. The rebate was introduced to address the issue of the UK making relatively larger net contributions than other Member States. When the rebate was introduced, in 1985, the UK received relatively little from the EU budget: it had a small agricultural sector, but most EU<sup>5</sup> spending went on agriculture. At the same time the UK made relatively large contributions to the budget, despite being among the less well-off Member States at the time.

The rebate could only be changed if all Member States, including the UK, agree.

As the rebate was included in the EU's regulation that determines Member States' contributions it was essentially permanent: the regulation could only be changed if all Member States, including the UK, agreed.

### How did the rebate work?

Broadly speaking the formula used meant that the UK's net contribution was reduced by 66% relative to what it would have been without the rebate.<sup>6</sup> However, certain parts of the EU's spending were excluded from the deduction including EU overseas aid, and non-agricultural spending in Member States that joined the EU after April 2004. This final exclusion, which was agreed by the UK, was phased in from 2009 to ensure that the UK contributed to the costs of enlarging the EU. The UK was, according to the then Prime Minister Tony Blair, "the strongest supporter of enlargement among all member states".<sup>7</sup>

The European Parliament Research Service's briefing [The UK 'rebate' on the EU budget](#) discusses the rebate further.

The basic concept of the rebate remained the same after its inception, but changes to its calculation were made over time as the EU and its methods for raising revenues changed. The changes aimed to keep the calculation similar to what it would have been had the overall system not changed since 1985.

The European Commission calculated the rebate on the basis of its estimates of the likely outturn for payments from the budget in-year and its estimates of Member States' contributions to the budget. These were then corrected in light of actual outturn figures. Corrections could be made up to three years after the year to which the rebate related, after which a final reckoning was made in the fourth year. The rebate was deducted from the UK's contribution a year in arrears.

<sup>5</sup> Or European Economic Community as it was then known

<sup>6</sup> The rebate is calculated by taking the difference between the UK's percentage share of contributions to the EU and the UK's percentage share of EU receipts, multiplying this figure by 0.66 and then multiplying it by total spending.

<sup>7</sup> [HC The rebate is deducted from the UK's contribution a year in arrears. Deb 19 December 2005 c1563-5](#)

## 3

# UK payments to the EU after Brexit

Despite leaving the EU, the UK will still have some financial transactions with the EU.

First, the UK and EU have some outstanding financial obligations to each other that they are settling through the "[financial settlement](#)". The financial settlement was part of the [UK-EU Withdrawal Agreement](#).

Second, the UK may make financial contributions to continue participating in a small number of EU programmes as a third country.

## 3.1

# The financial settlement between the UK and EU

In the financial settlement (the settlement), the UK and EU agreed how they will settle their outstanding financial obligations to each other. The obligations arise out of the UK's participation in the EU budget and broader aspects of its EU membership.

The settlement says which financial commitments are covered, the methodology for calculating the UK's share and the payment schedule. The settlement is part of the Withdrawal Agreement, which is the legally binding treaty setting out the negotiated terms of the UK's departure from the EU.

Broadly speaking the settlement can be split into three components:

- During the **transition period**, until the end of 2020, the UK paid into the EU budget almost as if it were a Member State. The UK also received funding from EU programmes – such as structural funding – as if it were a Member State.
- EU annual budgets commit to some future spending without making payments to recipients at the time. The commitments will become payments in the future. The UK is contributing towards the EU's **outstanding commitments** as at 31 December 2020. Recipients in the UK are also receiving funding for outstanding commitments made to them.
- The UK will **share the financing of some EU liabilities** (such as pensions of EU staff) as at the end of 2020, and any materialising contingent liabilities, and will **receive back a share of some assets**.

There is no definitive cost to the settlement as the settlement requires the UK and EU to only pay the amounts that fall due, not the amount forecast. The final cost will depend on future events such as future exchange rates and the amount of EU spending that is decommitted.<sup>8</sup> Forecasts from the Office for Budget Responsibility and the Treasury suggest that the settlement will have cost around £30-35 billion once the final payment is made, possibly in the 2060s.<sup>9</sup> The cost is uncertain and depends on future events, such as future exchange rates.

Further information is available in the Library briefing [Brexit: The financial settlement](#).

## 3.2 Payments to participate in EU programmes as a third country

Despite no longer being an EU Member State, the UK may continue to participate in some EU programmes, following the deal reached over the UK-EU future relationship ([The UK-EU Trade and Cooperation Agreement](#)). The UK will make a financial contribution to participate in such programmes.

The UK-EU Trade and Cooperation Agreement says that the UK may continue to participate in the following EU programmes:

- Horizon Europe – the EU's research and innovation programme
- Euratom Research and Training programme
- International Thermonuclear Experimental Reactor (ITER) – the fusion test facility currently under construction in the South of France
- Copernicus – EU satellite system for monitoring the Earth

Although the future relationship agreement has operated since 1 January 2021, the UK's participation in EU programmes hasn't formally begun. The EU hasn't finalised the UK's participation. The delay has been attributed to wider political disputes between the UK and EU, including over the Northern Ireland protocol.<sup>10</sup> The Library Insight [Is the UK still participating in EU programmes?](#) has further information.

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<sup>8</sup> See paragraphs E.71-E.94 of [European Union Finances Statement 2020](#) for more.

<sup>9</sup> HM Treasury. [European Union Finances Statement 2020](#), 15 July 2021; OBR. [Economic and fiscal outlook – March 2021](#), March 2021

<sup>10</sup> Lords European Affairs Committee. [Letter to Rt Hon Liz Truss MP, Foreign Secretary, on the UK's participation in the Horizon Europe Programme](#), 3 March 2022; Lords European Affairs Committee. [Letter from Elizabeth Truss to Lord Kinnoull](#), 13 May 2022; ["Brexit tensions mean Brits won't get EU science cash, Brussels warns"](#), Politico [online], 19 May 2022

## Financial contribution

The UK will make financial contributions to take part in the EU programmes. The contributions for taking part in EU programmes are part of the future relationship and aren't part of the financial settlement. The financial contribution will be calculated on:<sup>11</sup>

- a contribution based on the wealth of the UK (proportion to its GDP) in comparison with the wealth of the EU.
- a participation fee, covering the administrative costs of organising the system of EU programmes.
- in addition, for Horizon Europe, a standard adjustment mechanism ensuring a balance between UK contributions and the benefits for its entities, through specific corrective measures.

## Other third country participation

Other third (non-EU) countries, who have some relationship with the EU, take part in some of the Commission's programmes. For instance, Turkey – a candidate country for EU membership – has participated in programmes including [Horizon 2020](#), [Erasmus+](#), [COSME](#) and [EaSI](#).<sup>12</sup> Norway – a member of the European Economic Area (EEA) – [currently participates in 11 EU programmes](#).

Non-EU countries often make a financial contribution to European Commission programmes they participate in based on the relative size of their national income. Beyond financial contributions, the Commission may have other requirements for some programmes, such as an agreement on free movement of people. For instance, Switzerland's participation in Horizon 2020 – the EU research and innovation programme – covered only part of the programme until it met the EU's requirements on free movement of people.<sup>13</sup> However, non-EU countries membership of Horizon 2020 does not follow one single model.

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Some non-EU countries already take part in European Commission funding programmes.

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<sup>11</sup> European Commission, [Questions & Answers: EU-UK Trade and Cooperation Agreement](#), 24 December 2020

<sup>12</sup> European Commission. [Participation of Third Countries in the COSME Programme](#)

<sup>13</sup> For more see the Library briefing [UK Funding from the EU](#).

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