



BRIEFING PAPER

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The UK's contribution to the EU Budget

By Matthew Keep

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3. UK payments to the EU on and after Brexit



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Summary

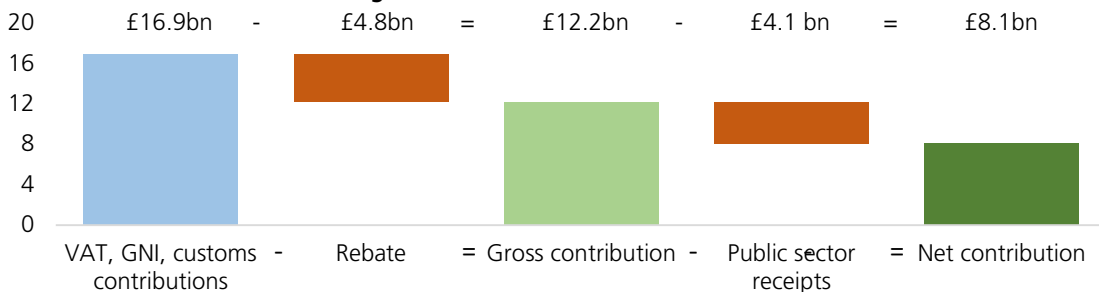
The UK's contribution to the EU budget

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

The UK receives a rebate from the EU which reduces its contribution. The rebate aims to correct the issue of the UK making relatively large net contributions to the EU.

In 2016/17 the UK made an estimated gross contribution (after the rebate) of £12.2 billion. The UK received £4.1 billion of public sector receipts from the EU, so the UK's net public sector contribution to the EU was an estimated £8.1 billion.

UK's contribution to the EU budget, 2016/17, £ billion



There are different ways to measure the funds the UK receives from the EU. The above figure of £4.1 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 billion - £1.5 billion to the UK. Accounting for these receipts results in the UK making an average net contribution of £7.1 billion between 2010 and 2014.

Brexit and the UK's contribution

The UK will remain a member of the EU until its departure has been negotiated and will continue to contribute to the EU budget until it formally leaves.

A financial settlement for the UK's withdrawal

The UK and EU have reached an agreement in principle on a financial settlement for the UK's withdrawal. Often described by the media as the 'divorce bill', the agreed approach for calculating the settlement is based on the principles that:

- the UK pays for its share of the commitments taken on during its EU Membership
- no remaining Member State is made financially worse off by the UK's withdrawal
- the UK should neither pay more nor earlier than if it had remained a Member State

The UK Government costs the settlement at around £35 billion-£39 billion. However, it is unlikely that the true cost will be known until all the future payments have been made.

Payments after leaving?

The UK Government says that it may pay to participate in some EU programmes after Brexit. For instance, the UK might contribute to remain in [Horizon 2020](#), the EU's research and innovation programme. Exit negotiations will determine the extent of the UK's future participation in EU programmes and any cost.

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.

1. The UK and the EU budget

1.1 Introduction

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

Like all Member States, the UK contributes to the EU budget through three sources:

- it collects 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 contributes a percentage of its adjusted, or harmonised, VAT-base.
- it contributes a percentage of its Gross National Income (GNI).

The UK receives 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 is deducted from the UK's contributions before it makes its payments to the EU budget.

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

The majority of the EU's spending in the UK is for agriculture and economic development.

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

Box 1: Brexit and the UK's contributions to the EU budget

On 23 June 2016 the UK voted to leave the EU. The UK will remain a member of the EU until its departure has been negotiated and will continue to contribute to the EU budget until it formally leaves. Once the UK has left it may still make payments to the EU. Exit negotiations will determine whether the UK makes any payments to the EU on leaving or after it has left. [Section 3](#) of this briefing discusses the issue in further detail.

A payment on leaving

In December 2017, the UK and EU reached an agreement in principle on a financial settlement as part of the UK's withdrawal. Often described by the media as the 'divorce bill', the agreed approach for calculating the settlement is based on the principles that:

- the UK pays for its share of the commitments taken on during its EU Membership
- no remaining Member State is made financially worse off by the UK's withdrawal
- the UK should neither pay more nor earlier than if it had remained a Member State

Contributions after leaving?

Following a negotiated departure, the UK may continue to make contributions to the EU budget. Any future contributions will depend on the formal relationship the UK has with the EU once it has left. It is possible that the UK may continue to participate in some of the EU's programmes, and would make financial contributions to do so. Prime Minister Theresa May – in speeches setting out the UK's objectives for exiting the EU – says that the UK may continue to participate in some EU programmes.¹ It is difficult to estimate any future payments. It is fair to say that the greater the UK's access to EU programmes and the single market, the larger its ongoing payments will be.

¹ 10 Downing Street, [The government's negotiating objectives for exiting the EU: PM speech](#), 17 January 2017 ; [PM's Florence speech: a new era of cooperation and partnership between the UK and the EU](#), 22 September 2017

1.2 UK contributions and receipts

Different approaches are used for measuring the UK's net contribution to the EU budget. This briefing largely discusses HM Treasury's approach, but figures from the European Commission are provided in Box 3. The key difference between the sources is that HM Treasury include only EU receipts allocated to UK government to manage, described as public sector receipts. Funds allocated directly to UK organisations by the Commission are not included by HM Treasury.

Gross contribution

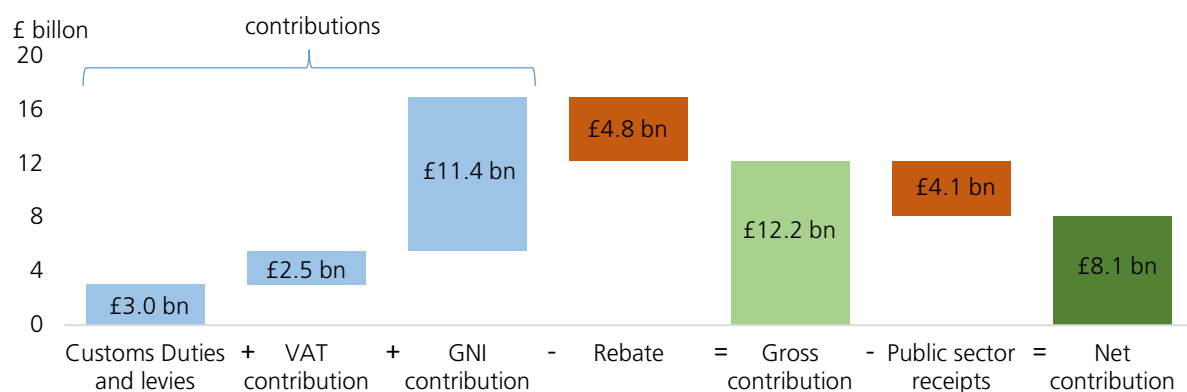
HM Treasury estimate that in 2016/17 the UK made a gross contribution of £12.2 billion to the EU budget, with the rebate taken into account. The EU do not pay the rebate to the UK in a separate transaction, it is deducted from the contributions the UK makes to the EU.²

In keeping with all Member States, the vast majority of the UK's contribution came from its Gross National Income (GNI)-based contribution. The EU must run a balanced budget; that is, the EU's revenues must covers its spending. 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.

EU receipts and the net contribution

The UK received an estimated £4.1 billion of public sector receipts from the EU in 2016/17. This means the UK's net contribution to the EU budget was £8.1 billion.

Chart 1. UK contributions to, and receipts from, the EU budget
£ billion, 2016/17



The UK's estimated gross contribution (after the rebate) was £12.2bn in 2016/17.

The UK's public sector received an estimated £4.1bn of funding from the EU in 2016/17. The UK's net contribution, therefore, was £8.1bn.

As the Library briefing [Brexit: UK Funding from the EU](#) discusses, the majority of the receipts received by the UK are for agriculture. The European Agricultural Guarantee Fund (EAGF) – which pays subsidies to farmers – is 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

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

² The rebate is paid a year in arrears. So the rebate applied in 2014 was calculated on the UK's net contribution in 2013.

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

Box 2: 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.

Table 1. UK Contributions to, and public sector receipts, from the EU budget, £ million

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
<i>UK contributions to the EU</i>						
Customs duties and levies	2,205	2,171	2,200	2,263	2,314	3,020
VAT contributions	2,276	2,398	2,163	2,316	2,751	2,477
GNI contribution	11,218	12,303	13,845	14,154	12,570	11,440
Contributions	15,699	16,872	18,208	18,733	17,635	16,937
<i>UK rebate</i>	<i>-3,516</i>	<i>-3,172</i>	<i>-4,130</i>	<i>-4,811</i>	<i>-4,068</i>	<i>-4,757</i>
Gross contributions	12,184	13,699	14,079	13,921	13,567	12,180
Total Public Sector Receipts	4,771	4,022	3,856	4,690	2,811	4,079
Net Contribution	7,413	9,678	10,223	9,231	10,756	8,102

Source: HM Treasury, *Public expenditure statistical analyses 2017*, Table C.1, and previous editions

As table 1 shows, the UK's net contribution to the EU budget is fairly volatile from year to year. Aside from exchange rate volatility, there are reasons for this in terms of both 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

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](#)).

UK organisations receive around £1bn - £1.5bn a year directly from the European Commission.

Data on the receipts received from these programmes are less timely, however in recent years they have been around £1 billion - £1.5 billion a year. If these are taken into account, the Treasury estimates that the UK's average net contribution to the EU budget was £7.1 billion between 2010 and 2014.³

Box 3: The European Commission's calculation of the UK's budget contribution⁴

The European Commission publish data on the EU's 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:

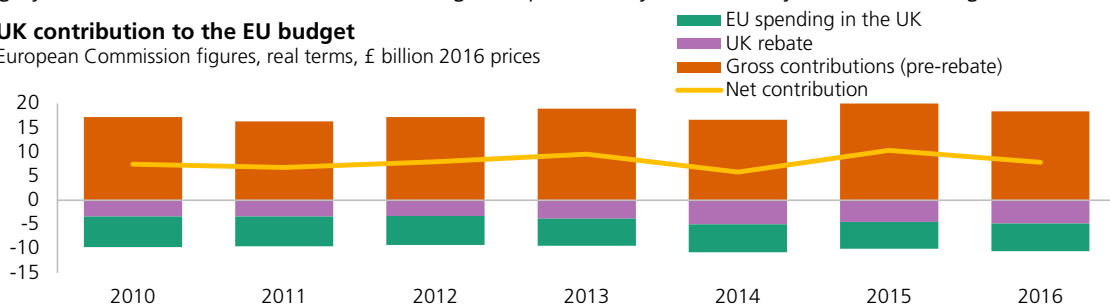
- the Commission includes all receipts going to the UK, including those the Commission directly allocates. These are not included in HM Treasury's figures (see [section 1.2](#))
- the Commission attempt to match transactions to a particular EU budget year. HM Treasury's figures are based on cash flow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

In addition, the figures presented in this briefing from HM Treasury are for financial years.

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.

UK contribution to the EU budget

European Commission figures, real terms, £ billion 2016 prices



Member State comparisons

Member States' net contributions can be compared using the Commission's data. In 2016 the UK made the third largest net contribution to the EU budget in absolute terms, and the sixth largest net contribution per head of population.

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. The 16 states with the lowest GNI per head of population are all net recipients from the EU budget. Section 3 of the Library briefing [A guide to the EU budget](#) provides further details.

³ HM Treasury the long-term economic impact of EU membership and the alternative, [Table 1.B](#)

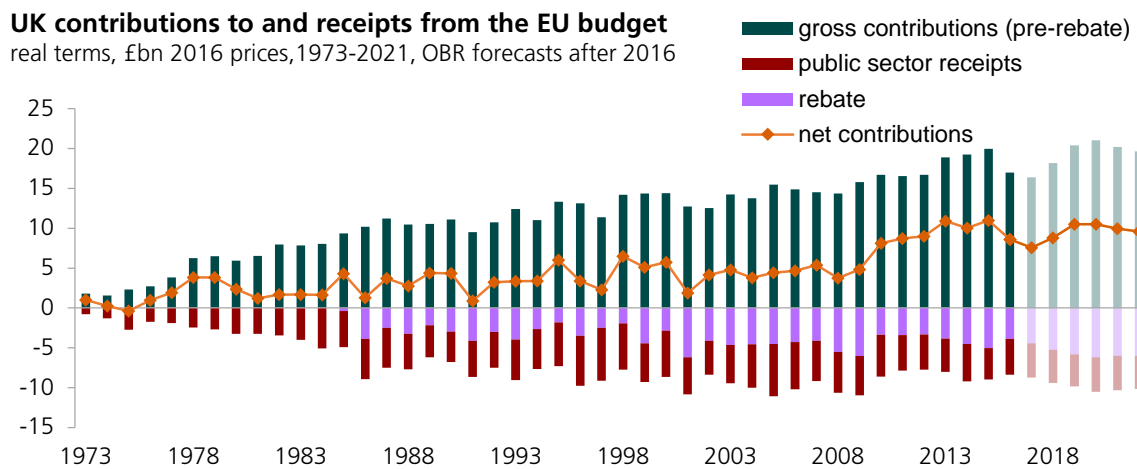
⁴ EC's [EU expenditure and revenue 2014-2020](#), converted to £s using [BoE's data](#)

The UK’s net contribution and forecast net contribution: 1973 - 2022

The chart below and tables 2 and 3 show the UK’s contributions and receipts from the EU since 1973, using HM Treasury figures for calendar years. HM Treasury’s figure for 2016 is an estimate as their outturn figure hasn’t yet been published. As these are the Treasury’s figures they do not include funding allocated directly by the Commission to UK organisations.

The data include forecasts from the Office for Budget Responsibility (OBR) – the UK’s public finances watchdog – for the years after 2016. The forecasts assume that the UK remains in the EU and contributes to its budget in the normal way, including in those years when the UK is expected to have left the EU. The OBR took this approach as, when they made the forecast, they didn’t have enough information about what the government wants from its future relationship with the EU, and what its chances of getting it are:

As we do not have sufficient detail about the Government’s negotiation preferences, or the chances of achieving them, we are not able to forecast how spending will be affected after the UK leaves the EU. We therefore make the fiscally neutral assumption that any reduction in transfers to the EU would be recycled into extra domestic spending.⁵



⁵ OBR. Economic and fiscal outlook – November 2016, [table 4.17 footnote 2](#)

9 The UK's contribution to the EU Budget

Table 2. UK net contributions to the EU/EC Budget 1973-2021. Forecasts after 2016.

£ million, cash

	Gross contribution before rebate	Negotiated refunds	Rebate	Gross contribution (after rebate and refunds)	Public sector receipts	Net Contribution <i>(Gross contribution - rebate & refunds - public sector receipts)</i>
1973	181			181	79	102
1974	181			181	150	31
1975	342			342	398	-56
1976	463			463	296	167
1977	737			737	368	369
1978	1,348			1,348	526	822
1979	1,606			1,606	659	947
1980	1,767	98		1,669	963	706
1981	2,174	693		1,481	1,084	397
1982	2,863	1,019		1,844	1,238	606
1983	2,976	807		2,169	1,522	647
1984	3,204	528		2,676	2,020	656
1985	3,940	61	166	3,713	1,905	1,808
1986	4,493		1,701	2,792	2,220	572
1987	5,202		1,153	4,049	2,328	1,721
1988	5,138		1,594	3,544	2,182	1,362
1989	5,585		1,154	4,431	2,116	2,315
1990	6,355		1,697	4,658	2,183	2,475
1991	5,807		2,497	3,309	2,765	544
1992	6,738		1,881	4,857	2,827	2,030
1993	7,985		2,539	5,446	3,291	2,155
1994	7,189		1,726	5,463	3,253	2,211
1995	8,889		1,207	7,682	3,665	4,017
1996	9,133		2,412	6,721	4,373	2,348
1997	7,991		1,733	6,258	4,661	1,597
1998	10,090		1,378	8,712	4,115	4,597
1999	10,287		3,171	7,117	3,479	3,638
2000	10,517		2,085	8,433	4,241	4,192
2001	9,379		4,560	4,819	3,430	1,389
2002	9,439		3,099	6,340	3,201	3,139
2003	10,966		3,559	7,407	3,728	3,679
2004	10,895		3,593	7,302	4,294	3,008
2005	12,567		3,656	8,911	5,329	3,582
2006	12,426		3,569	8,857	4,948	3,909
2007	12,456		3,523	8,933	4,332	4,601
2008	12,653		4,862	7,791	4,497	3,294
2009	14,129		5,392	8,737	4,401	4,336
2010	15,196		3,047	12,150	4,768	7,382
2011	15,356		3,143	12,214	4,132	8,082
2012	15,745		3,110	12,636	4,169	8,467
2013	18,135		3,674	14,461	3,996	10,465
2014	18,778		4,416	14,362	4,583	9,779
2015	19,560		4,914	14,646	3,883	10,763
2016 ^e	16,996		3,878	13,118	4,503	8,616
2017 ^f	16,700		4,400	12,200	4,500	7,700
2018 ^f	18,800		4,300	14,400	5,400	9,100
2019 ^f	21,400		4,200	17,100	6,100	11,000
2020 ^f	22,400		4,600	17,800	6,600	11,200
2021 ^f	21,900		4,700	17,300	6,500	10,800
2022 ^f	21,700		4,600	17,100	6,600	10,600

Note:

^e2016 are estimates, ^f figures for 2017 - 2020 are forecasts rounded to the nearest £100 million

Forecasts are converted to £ using exchange rate of Q4 of previous year

Sources:

HM Treasury, *European Union Finances*, latest edition published February 2017, Cm 9400

HM Treasury, *European Union Finances*, previous editions

OBR, Economic and fiscal outlook - November 2017, supplementary fiscal table 2.27

OBR, Economic and fiscal outlook - November 2017, supplementary economy table 1.9

House of Commons Library calculations

Table 3. UK net contributions to the EU/EC Budget 1973-2021. Forecasts after 2016.*£ million, real (2016) prices*

	Gross contribution	Negotiated refunds	Rebate	Total contribution (after rebate and refunds)	Public sector receipts	Net Contribution <i>(Gross contribution - rebate & refunds - public sector receipts)</i>
1973	1,806			1,806	788	1,018
1974	1,556			1,556	1,289	266
1975	2,331			2,331	2,713	-382
1976	2,733			2,733	1,748	986
1977	3,822			3,822	1,908	1,913
1978	6,256			6,256	2,441	3,815
1979	6,510			6,510	2,671	3,839
1980	5,957	330		5,627	3,247	2,380
1981	6,526	2,080		4,446	3,254	1,192
1982	7,962	2,834		5,128	3,443	1,685
1983	7,842	2,126		5,715	4,010	1,705
1984	8,029	1,323		6,706	5,062	1,644
1985	9,351	145	394	8,812	4,521	4,291
1986	10,207		3,864	6,342	5,043	1,299
1987	11,216		2,486	8,730	5,019	3,711
1988	10,461		3,245	7,216	4,443	2,773
1989	10,557		2,181	8,375	4,000	4,376
1990	11,120		2,969	8,150	3,820	4,331
1991	9,534		4,100	5,434	4,540	893
1992	10,736		2,997	7,739	4,505	3,234
1993	12,399		3,943	8,457	5,111	3,346
1994	11,030		2,648	8,382	4,990	3,392
1995	13,315		1,807	11,508	5,490	6,018
1996	13,144		3,471	9,673	6,293	3,380
1997	11,394		2,472	8,923	6,646	2,277
1998	14,222		1,942	12,281	5,800	6,480
1999	14,382		4,433	9,949	4,864	5,085
2000	14,408		2,856	11,552	5,810	5,742
2001	12,739		6,194	6,546	4,659	1,886
2002	12,542		4,117	8,425	4,254	4,171
2003	14,227		4,618	9,609	4,837	4,773
2004	13,789		4,547	9,242	5,435	3,807
2005	15,496		4,508	10,988	6,571	4,417
2006	14,871		4,271	10,600	5,922	4,678
2007	14,533		4,110	10,422	5,054	5,368
2008	14,355		5,516	8,839	5,102	3,737
2009	15,791		6,026	9,765	4,919	4,846
2010	16,721		3,353	13,369	5,247	8,123
2011	16,564		3,390	13,175	4,457	8,718
2012	16,723		3,303	13,421	4,428	8,993
2013	18,901		3,829	15,072	4,165	10,907
2014	19,241		4,525	14,716	4,696	10,020
2015	19,951		5,012	14,939	3,961	10,978
2016e	16,996		3,878	13,118	4,503	8,616
2017 ^f	16,400		4,300	12,000	4,400	7,600
2018 ^f	18,200		4,200	13,900	5,200	8,800
2019 ^f	20,400		4,000	16,300	5,800	10,500
2020 ^f	21,000		4,300	16,700	6,200	10,500
2021 ^f	20,200		4,300	16,000	6,000	10,000
2022 ^f	19,700		4,200	15,500	6,000	9,600

Note:

^e2016 are estimates, ^f figures for 2017 - 2020 are forecasts rounded to the nearest £100 million

figures may not sum due to rounding

Forecasts are converted to £ using exchange rate of Q4 of previous year

Sources:

HM Treasury, *European Union Finances*, latest edition published February 2017, Cm 9400HM Treasury, *European Union Finances*, previous editions

OBR, Economic and fiscal outlook - March 2017, supplementary fiscal table 2.27

OBR, Economic and fiscal outlook - March 2017, supplementary economy table 1.9

ONS. GDP deflator November 2017

House of Commons Library calculations

2. The UK's rebate

As discussed previously the UK receives 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 EU⁶ 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.

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

How does the rebate work?

Broadly speaking the formula used means that the UK's net contribution is reduced by 66% relative to what it would be without rebate.⁷

However, certain parts of the EU's spending are 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".⁸

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

The European Commission calculates 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 are then corrected in light of actual outturn figures. Corrections may be made up to three years after the year to which the rebate relates, after which a final reckoning is made in the fourth year. The rebate is deducted from the UK's contribution a year in arrears.

Who pays for the rebate?

The other Member States cover the cost of the UK's rebate. The cost of the rebate is based on each states' share of EU GNI, but Germany, the Netherlands, Austria and Sweden only pay one quarter of their amount due. The reductions are paid for by the remaining Member States.

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

The rebate is deducted from the UK's contribution a year in arrears.

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

⁶ Or European Economic Community as it was then known

⁷ 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.

⁸ [HC Deb 19 December 2005 c1563-5](#)

3. UK payments to the EU on and after Brexit

The UK voted to leave the EU on 23 June 2016. The UK will remain a member of the EU until its departure has been negotiated and will continue to contribute to the EU budget until it formally leaves. Once it has formally left, the UK may still make some payments to the EU.

Payments associated with the UK's withdrawal

When the UK leaves the EU it is expected to make a contribution towards the EU's outstanding financial commitments – spending that was agreed while the UK was a member. The media have labelled this as an 'exit bill' or 'divorce bill', the EU see it as a matter of 'settling the accounts'. The issue was discussed in the first phase of Brexit negotiations under the title of the 'single financial settlement' (the settlement).

On 8 December 2017, an agreement in principle was reached on the first phase of negotiations, including the settlement. The agreement reached provides a methodology for calculating the settlement rather than detailing the amounts that will be paid.

The UK Government estimates that the settlement will cost around £35 billion-£39 billion, although the true cost will not be known until all the future payments have been made. Payments arising from some of the items included in the settlement will be made over many years.

Payments after the UK has left the EU

Once the UK has left the EU it may make payments to the EU to participate in some EU programmes. Theresa May has stated as much in speeches on the UK's relationship with the EU:

And as we move forwards, we will also want to continue working together in ways that promote the long-term economic development of our continent.

This includes continuing to take part in those specific policies and programmes which are greatly to the UK and the EU's joint advantage, such as those that promote science, education and culture – and those that promote our mutual security.

And as I set out in my speech at Lancaster House, in doing so, we would want to make an ongoing contribution to cover our fair share of the costs involved.⁹

However, the Government's Brexit White Paper said that the UK would leave the EU's single market and wouldn't be expected to make payments in exchange for such preferential market access:

As we will no longer be members of the Single Market, we will not be required to make vast contributions to the EU budget. There may be European programmes in which we might want to

The UK may still pay to participate in some EU programmes after it has left the EU.

⁹ [PM's Florence speech: a new era of cooperation and partnership between the UK and the EU](#), 22 September 2017

participate. If so, it is reasonable that we should make an appropriate contribution. But this will be a decision for the UK as we negotiate the new arrangements.¹⁰

3.1 The financial settlement

The agreement reached between the UK and EU on the financial settlement (the settlement) details what the UK will contribute to once it leaves the EU and how the payments will be calculated. This is an agreement in principle and will not be legally binding until it enters into a final Withdrawal Agreement. It is a political agreement at this stage.

The Library briefing [Brexit: the exit bill](#) discusses settlement negotiations, the positions of the EU and UK, and the final agreement reached.

Underlying principles

A methodology for calculating the financial settlement was agreed in the first phase of withdrawal negotiations. The underlying principles of the methodology are that:

- no EU Member State should pay more or receive less because of the UK's withdrawal from the EU;
- the UK should pay its share of the commitments taken during its membership; and
- the UK should neither pay more nor earlier than if it had remained a Member State. This implies in particular that the UK should pay based on the actual outcome of the budget

The final point means that the UK will not be required to make any payments earlier than would have been the case if it had remained a Member State, unless agreed by both sides. For instance, as discussed below, the UK agrees to contribute towards the pensions of EU employees. The payments to EU employees are made annually in the EU's budgets and the UK will make annual contributions towards these costs. The UK will make a stream of EU pension related payments.

The settlement incorporates different areas of the EU's outstanding spending commitments, which are discussed below.

Commitments arising from the EU Budget

UK participation in Union annual budgets to 2020

The UK will continue to contribute to, and participate in, the EU Budget in 2019 and 2020. Any changes made to the Budget or its financing after the withdrawal date (March 2019) will not apply to the UK. In November 2017, the Office for Budget Responsibility (OBR) – the UK's public finances watchdog – forecast that the UK will contribute around €15 billion in 2019 and €16 billion in 2020.¹¹

¹⁰ HM Government, *The United Kingdom's exit from and new partnership with the European Union*, Cm9417, February 2017, [para 8.51](#)

¹¹ OBR, [Economic and fiscal outlook – November 2017](#), supplementary table 2.27. These figures exclude the customs duties and levies collected by the UK on behalf of the EU.

The UK's rebate will continue to apply (see [section 2](#)).¹² The rebate is paid one year in arrears, so for instance the rebate paid in 2019 is based on the 2018 Budget. The UK shall receive a rebate in 2021 on its 2020 contributions. The OBR forecasts that the UK's rebate in 2021 will be around €5 billion.¹³

EU Budget outstanding commitments (*reste à liquider*)

In their annual Budget the EU commits to some future spending without making payments to recipients at the time. The commitments will become payments in the future. The EU refers to outstanding commitments as *reste à liquider* (RAL). The UK will contribute towards the financing of the RAL outstanding at 31 December 2020.

The total applicable RAL will be adjusted to account for the actual amount that will be implemented. An adjustment will be made for 'decommitments' – commitments that are cancelled as they are not going to be converted into payments – and assigned revenues, which are largely revenues from non-EU countries to EU programmes.

At the end of 2016, the EU's total accumulated RAL was €239 billion.¹⁴ The extent to which this will be adjusted for decommitments and assigned revenues won't be known until they happen. Media reports suggest that UK Government officials expect that the UK's share of RAL could be in the region of €21 billion - €23 billion over time.¹⁵ It appears that the UK's figure assumes a greater proportion of decommitments than the EU usually assumes.¹⁶

Liabilities

The UK will share the financing of the EU's liabilities incurred before 31 December 2020. Liabilities with corresponding assets will be excluded, as will assets and liabilities related to the spending and financing of the EU Budget.¹⁷

The pensions and other benefits of EU employees look like being the most significant liabilities included in the settlement. Like the UK civil service pension scheme, the EU's pension scheme is unfunded and operates on a 'pay-as-you-go basis', which sees costs being covered by the EU Budget as they arise.

At the end of 2016, the EU's liabilities for pensions and other employee benefits stood at €67 billion.¹⁸ This figure is an estimate of what these

¹² The Library briefing [The UK's contribution to the EU budget](#) discusses the rebate.

¹³ *ibid*

¹⁴ European Commission, [Consolidated accounts of the European Union and Financial Statement Discussion and Analysis](#), June 2017, [Table 4.5](#)

¹⁵ Bloomberg, [Brexit deal in Brussels: What the Fine Print Says and What it Means](#), 8 December 2017

¹⁶ FT, [Brexit bill could rise beyond UK estimate of €40bn-€45bn](#), 8 December 2017

¹⁷ See footnote 6 and 7 of the [Joint report from the negotiators of the European Union and the United Kingdom Government on progress during phase 1 of negotiations under Article 50 TEU on the United Kingdom's orderly withdrawal from the European Union](#).

¹⁸ European Commission, [Consolidated accounts of the European Union and Financial Statement Discussion and Analysis](#), June 2017, [page 18](#)

future payments are worth now – it is based on discounting the future payments by a rate that adjusts for the time value of money. Therefore at this time it isn't possible to say precisely how much the UK will have contributed once all its annual payments for EU pensions have been made.

Contingent liabilities

The UK will remain liable for its share of the EU's contingent liabilities as established at the date of withdrawal. These liabilities include those related to financial operations – for instance for financial guarantees given on loans and financial assistance programmes – and legal cases. Box 4 defines contingent liabilities and provides an example.

Box 4: Contingent liabilities

Contingent liabilities are potential liabilities that may occur depending on the outcome of an uncertain event in the future. They relate mainly to financial guarantees given (on loans and financial assistance programmes) and to legal risks.

An example contingent liability: the European Financial Stabilisation Mechanism

The European Financial Stabilisation Mechanism (EFSM) was created in 2010 as a temporary fund to provide loans to EU Member States in financial difficulty. The EFSM used the EU Budget as a guarantee to borrow money on financial markets, which it then subsequently lent to countries which require the funding. The EFSM is no longer used to fund new loans, but the outstanding loans still exist.

If the countries which receive EFSM loans fail to repay them, then the EU Budget bears the cost. If, as a result of this, additional money is required to fund the EU Budget, further contributions from EU Members may be required. This is where the UK currently has a contingent liability.

For those contingent liabilities related to financial operations, the UK's liability will only be affected by decisions adopted before the date of withdrawal.

For contingent liabilities related to legal cases as a result of participation in the budget, programmes and policies, the cut-off date will be 31 December 2020.

If any contingent liabilities are triggered, the UK will receive any subsequent recoveries from meeting those liabilities. The UK will also receive its share of paid-in guarantees when the financial operations associated with some contingent liabilities decline.¹⁹

The UK's share

Some of the financial commitments discussed above are accounted for on an EU-wide basis. The UK's share of these commitments will be based on the UK's percentage share of total contributions to the EU Budget over 2014 – 2020. The exception is the UK's continued participation in Budget 2019 and 2020 – here there is no need to calculate a UK share.

¹⁹ The UK will also receive a share of the net asset of the European Coal and Steel Community in liquidation and of the European Investment Fund decided before the withdrawal date, as the financial operations supported by these mature.

UK participation in programmes

The UK will continue to participate in EU programmes funded from the current Budget plan (the Multiannual Financial Framework 2014 – 2020)²⁰ until they close. The UK Government and UK beneficiaries will be required to respect all relevant EU legal provisions including co-financing.

EU programmes take two forms – funding is either provided to the UK Government to manage, or funding is allocated directly to beneficiaries by the Commission.

The UK Government-managed funds include the European Structural and Investment funds and direct payments to farmers. The OBR forecasts that the UK will receive around €7 billion in funding for these programmes in both 2019 and 2020.²¹

The funding allocated directly by the Commission is largely through the Horizon 2020 – the EU’s research and innovation programme. UK beneficiaries receive around €1.5 billion - €2 billion a year in direct funding from the Commission.²²

The Library briefing [Brexit: UK Funding from the EU](#) has more on EU funding programmes.

The currency of payments

The settlement will be drawn up and paid in euro. This means that the UK’s actual contribution in pounds will be contingent on the future exchange rate.

Areas outside of the EU Budget

European Investment Bank

EU Member States are members of the European Investment Bank (EIB). As an EIB member the UK agrees to provide €39 billion of the EIB’s capital, which is known as unpaid, or callable, capital. The UK also has €3.5 billion of paid-in capital with the EIB.

On withdrawal from the EU the UK will no longer be a member of the EIB. The UK’s €3.5 billion of paid-in capital will be repaid to the UK in twelve annual instalments starting at the end of 2019.²³

The UK will provide a guarantee to the EIB equal to its callable capital – an amount the UK currently agrees to provide if required. This guarantee will decrease as EIB loans associated with it decrease.

²⁰ The Library briefing [A guide to the EU budget](#) has more on the multiannual financial framework

²¹ OBR. Economic and fiscal outlook – November 2017, [supplementary table 2.27](#)

²² European Commission, [EU expenditure and revenue 2014-2020](#)

²³ The first eleven payments will be €300 million and the final one will be €196 million.

European Central Bank

At January 2015 the UK had €0.06 billion (€56 million) of paid-in capital in the ECB.²⁴ The paid-in capital will be returned to the Bank of England after the UK's withdrawal.

European Development Fund (EDF)

The EDF is the EU's main instrument for providing development aid overseas. The EDF is broken down over time into 'EDF funds'. The EDF is outside the EU Budget and the UK contributes to the fund.

The UK will remain part of the EDF until the close of the 11th EDF fund, which runs between 2014 and 2020. The UK will honour its share of the total commitments made under this EDF and the payments related to its share of the outstanding commitments made under previous EDFs. The practicalities of making payments will remain as they currently are, unless otherwise agreed in the second phase of negotiations.

The UK has a share of the EDF's Investment Facility. This funding will be returned to the UK as the investments end.

For further information on the EDF see the European Parliament Research Service's briefing [European Development Fund](#).

Facility for Refugees in Turkey and EU Trust funds

The UK will continue to honour the commitments it has made on the Facility for Refugees in Turkey and the European Union Emergency Trust Fund. The practicalities of the UK's participation in these schemes will continue on the current basis after withdrawal, unless changes are agreed in the second phase of negotiations.

The [Facility for Refugees in Turkey](#) was established as part of a wider framework to address the migration crisis which started in 2015. The Facility focuses on humanitarian assistance, education, migration management, health, infrastructure, and socio-economic support.

EU Trust Funds are development tools which pool resources from different donors in order to enable an EU response to an emergency or post-emergency situation. The European Parliament Research Service's briefing [EU Trust Funds for external action: First uses of a new tool](#) has more on the EU's trust funds.

What's the cost of the settlement?

The UK Government costs the settlement at around £35 billion-£39 billion.²⁵ However, it is very difficult to put definitive figures to the settlement, not least because many of the commitments the UK has agreed to will be based on their value in 2020. Further complications are that many of the items are being paid over a number of years, so any estimate made now relies on assumptions about the future, such as how many outstanding commitments will be written off (or

²⁴ ECB, [Capital subscription](#)

²⁵ [HC Deb 11 Dec 2017:c25](#)

decommitted) in the future, and at what rate future payments are discounted – for EU pensions for instance – to come up with today’s value.

It appears that the UK Government’s estimate does not include contingent liabilities (see [Box 4](#)).²⁶ If included, these liabilities – which are dependent on the outcome of uncertain future events – add around €10 billion. However, the chance of all of these liabilities materialising is remote, so it is reasonable for the Government to exclude them from its estimate.

3.2 Future payments: access to programmes and the single market

After its exit, the UK could still contribute to the EU to access its programmes and for preferential access to the single market.

Prime Minister Theresa May expects financial contributions to the EU, after exit, to be somewhat lower than current budget contributions; Mrs May has said that:

- the UK may continue to take part in some EU programmes, and would contribute to the EU for doing so.
- the UK will leave the single market, so will not have to make contributions for membership.²⁷

The Secretary of State for Leaving the European Union, David Davis, has also suggested that the UK is interested in taking part in some EU programmes after it has left the EU:

It is quite likely—so long as we are still friends, which is what I expect we will be—that we will be taking part in things like Horizon 2020, some of the other space issues like the GPS system, and some of the nuclear things. There is a variety of things where I can see us continuing to be part of it, just as—I do not know—Israel is part of some of them.²⁸

Participating in programmes directly managed by the European Commission

The UK may continue to participate in some of the funding programmes directly managed by the European Commission. The UK would pay to participate in the programmes.

²⁶ FT, [€40bn or €60bn? Totting up the Brexit bill](#), 8 December 2017

²⁷ 10 Downing Street, [The government's negotiating objectives for exiting the EU: PM speech](#), 17 January 2017

²⁸ Select Committee on Exiting the European Union, Oral evidence: The progress of the UK's negotiations on EU withdrawal, HC 372, [Q51](#)

Non-EU countries, who have some relationship with the EU, already take part in some of the Commission's funding programmes. For instance, Turkey – a candidate country for EU membership – [participates](#) in programmes including [Horizon 2020](#), [Erasmus+](#), [Creative Europe](#), [COSME](#), [EaSI](#).²⁹ Norway – a member of the European Economic Area (EEA) – participates in [at least 12 EU programmes](#).³⁰

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

Non-EU countries often contribute to European Commission programmes they participate in on the basis of 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.³¹ However, non-EU countries membership of Horizon 2020 does not follow one single model.

The UK's future participation in any European Commission programmes will be determined in exit negotiations. The agreement reached on the first phase of negotiations stated that the UK may wish to participate in some EU programmes once outside of the EU.³² This issue is set to be discussed in the second phase of withdrawal negotiations, during 2018.

Box 5: EU economic development and agricultural funds

Currently, the majority of the funding the UK receives from the EU is allocated directly to the UK to manage. This funding does not come from the European Commission's directly managed programmes, which are discussed above.

The UK directly manages funding for economic development including the European Regional Development Fund³³ and the European Social Fund and the agricultural funds.

It is unlikely that the UK will take part in these funds after exit, or after any transition period has ended. Non-EU countries do not take part in the economic development funds nor the agricultural funds.

Box 6: The European Economic Area

The European Economic Area (EEA) is made up of all EU Member States plus Norway, Iceland and Liechtenstein, who are often referred to as the non-EU EEA countries.

The EEA Agreement extends the EU single market and free movement of goods, services, people and capital, together with laws in areas such as competition policy, state aid, consumer protection and environmental policy to include Norway, Iceland and Liechtenstein.

Non-EU EEA countries are outside of the common customs union so can set their own trade policies with countries outside the EEA. The Library briefing [Brexit: trade aspects](#) discusses the EEA further.

²⁹ Turkey – European Union Association, [EU Programmes and Agencies to which Turkey Participates](#)

³⁰ Norway mission to the EU, [Norway's participation in EU programmes and agencies](#), 10 August 2016

³¹ For more see page 32 of the Library briefing [UK Funding from the EU](#).

³² [Joint report from the negotiators of the European Union and the United Kingdom Government on progress during phase 1 of negotiations under Article 50 TEU on the United Kingdom's orderly withdrawal from the European Union](#), 8 December 2017

³³ Some can benefit from INTERREG funding, which is funded from the European Regional Development Fund. They can do so through bordering countries, but only if the bordering countries apply for the funding.

Preferential access to the EU's single market

The Prime Minister has stated that the UK will not seek membership of the single market. However, with negotiations yet to begin, and significant uncertainty surrounding them, it is worth considering the contributions non-EU countries make in exchange for preferential access to the single market.

Non-EU EEA members (see Box 6) have significant access to the single market with some exceptions in agriculture and fisheries. The non-EU EEA members – Norway, Iceland and Liechtenstein – contribute grants to the poorer EU Member States in exchange for preferential access to the single market.³⁴ Norway – by far the biggest of the non-EU EEA countries – also has an agreement with the EU to provide separate grants, which are commonly known as Norway Grants. Norway will provide €1.3 billion through Norway grants between May 2014 and April 2021 and around €1.5 billion through the EEA grants.³⁵

Switzerland has limited access to the single market. It has tariff- and quota-free access to the EU's markets for manufactured goods and has negotiated access for particular service sectors. Switzerland provides grants to countries that have joined the EU since 2004.³⁶ Approximately £900 million of grants over five years have been committed.³⁷

The Lords European Union Committee considered whether the UK might pay for greater access to the single market. They concluded that the extent of any payment will be a matter for negotiation and will involve a series of trade-offs:

The question of whether the UK will be required to make a payment in return for market access will be a matter for negotiation, and is likely to involve trade-offs between the level of access sought, the structure and level of other payments and more general political considerations. If the UK refuses to accept free movement of persons or the jurisdiction of the CJEU [Court of Justice of the European Union], the price that it is asked to pay could be proportionately higher than that demanded of Norway [who do accept free movement and the CJEU]. The Government will have to consider any proposals in the round, weighing any payment included in a wider trade deal against the economic benefits the UK stands to gain from continued market access.³⁸

Some non-EU countries contribute grants to the poorer EU Member States in exchange for preferential access to the single market.

³⁴ European Commission, [protocol 38C on the EEA Financial Mechanism \(2014-2021\)](#), February 201

³⁵ European Commission, Agreement between the Kingdom of Norway and the European Union on a Norwegian financial mechanism for the period 2014-2021, [Annex](#), February 2016

³⁶ Confederation Suisse, [The Swiss contribution in brief](#) [accessed on 23 January 2017]

³⁷ IFS, Brexit and the UK's Public Finances, May 2016, [pages 15-16](#)

³⁸ House of Lords European Union Committee, *Brexit and the EU budget*, 4 March 2017, HL Paper 125, [para 187](#)

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