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BRIEFING PAPER

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A guide to the EU budget

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Summary

In 2015 the EU spent €140 billion. This is equivalent to around 1% of national income across the EU's Member States. The majority of the EU's spending goes on policies aimed at supporting farming and agriculture and improving Member States' economies and competitiveness.

This briefing includes only limited analysis of what the UK contributes to the EU budget and receives from it. Our briefing The UK's contribution to the EU budget goes into more detail on the subject.

EU spending

The EU plans its spending in 'financial frameworks' that generally span seven years. The current framework runs from 2014 to 2020. The framework sets out the maximum the EU can spend each year and allocates spending to broad priorities. However, the framework isn't a budget covering several years – the EU's annual budgets are negotiated each year by the European Commission, the Council of Europe and the European Parliament within the limits set by the financial framework.

Over 40% of the €140 billion spent by the EU in 2015 went on its agricultural policies. Subsidies were provided to farmers – which is the EU's biggest single spending area – and funding was provided to improve rural economies and farming's productivity. A further 40% or so of the EU's spending went to programmes aimed at improving the economies of the EU's poorer regions and countries and improving competitiveness in all EU regions.

The EU's revenues

The EU must run a balanced budget, its revenues must cover its spending.

The EU's largest source of revenue are the contributions made by Member States. Member States contribute a share of their adjusted VAT receipts and their Gross National Income (GNI) to the EU. They also collect customs tariffs on behalf of the EU. Member States' GNI contributions made up close to 70% of EU revenues in 2015.

The EU receives a small proportion of its revenues from other sources such as taxes on EU staff salaries, non-EU countries' contributions to programmes, interest on late payments, and fines on companies breaching competition law etc.

The UK's rebate

The UK receives a rebate on its contribution. The rebate was introduced, in 1985, to correct for the fact that the UK was making relatively large contributions to the EU budget but receiving relatively little receipts from it. The rebate is a permanent part of the EU's revenue regulations. It can only be changed if all Member States, including the UK, agree.

Member States' contributions to the EU budget and receipts they receive from it

Generally speaking, the richer Member States are net contributors to the EU budget – they contribute more to the budget than they receive from it. Poorer states are generally net recipients – they receive more from the EU budget than they pay in. In keeping with this, the UK made the second largest net contribution to the EU budget in absolute terms, and the third largest net contribution per head of population.

1. EU Budget: spending

Summary

Planning spending

- The EU plans its spending over seven-year periods in Multiannual Financial Frameworks (MFFs).
- The MFF is not a budget spanning several years – it sets out maximum amounts that the EU can spend on its priorities. It aims to ensure that the EU's spending evolves in line with its policies.
- The current MFF covers the years 2014 to 2020. It allows the EU to commit to spend €960 billion (2011 prices) over the period. This is a real terms reduction on the previous MFF 2007-13 of 3.5%.
- MFF 2014-20 allocates around 40% of the EU's spending to agricultural programmes and 47% to programmes that focus on economic growth, jobs, competitiveness and cohesion.

Annual budgets

- Each year an annual budget is negotiated by the European Commission, the Council and European Parliament. The budget is negotiated within the spending limits set out in the MFF.
- In 2015 the EU's largest spending programmes focused on subsidies to farmers (32% of total spending), structural funds to improve regional economies (26%), cohesion funds for Member States with lower living standards (9%), funding to develop rural economies (8%) and research and development through the Horizon 2020 programme (7%).

1.1 Planning the EU's spending: the Multiannual Financial Framework (MFF)

The EU plans its spending over seven-year periods through the Multiannual Financial Framework (MFF).[1] The MFF broadly sets out maximum EU spending across different categories. It also sets an overall maximum for the amount of actual payments the EU can make in a year.

The EU plans its spending in the seven year multiannual financial framework (MFF).

The MFF is not a budget spanning several years, but instead provides a framework for the annual budgets that are negotiated each year. It aims to ensure that the EU's spending evolves in line with its policies.

The MFF isn't a budget spanning several years. It provides a framework for the EU's annual budgets to be negotiated in.

The MFF is negotiated by the European institutions (see Box 1) and requires unanimous agreement at the European Council – which means each Member States' head of government must agree to it – and agreement by the European Parliament.

MFF 2014-20

The current MFF covers the years 2014-2020. It allows the EU to commit to spend up to €960 billion over the period and make payments of €908 billion (2011 prices). This spending is equivalent to around 1% of the Gross National Income (GNI) of the whole EU.[2] The Institute for

1 The MFF must cover a period of at least five years.

2 GNI is a measure of economic output which values goods and services produced by the residents of a country. It differs from GDP because it includes income such as

Fiscal Studies (IFS) – an economic think tank – notes that this spending is a relatively small component of public spending within the EU.[3] In comparison, the UK government's public spending is equivalent to around 40% of GDP.[4]

The maximum spending allowed in MFF 2014-20 is lower in real terms (after adjusting for inflation) than in its predecessor, MFF 2007-13. This is the first time that spending has fallen from one MFF to the next.[5]

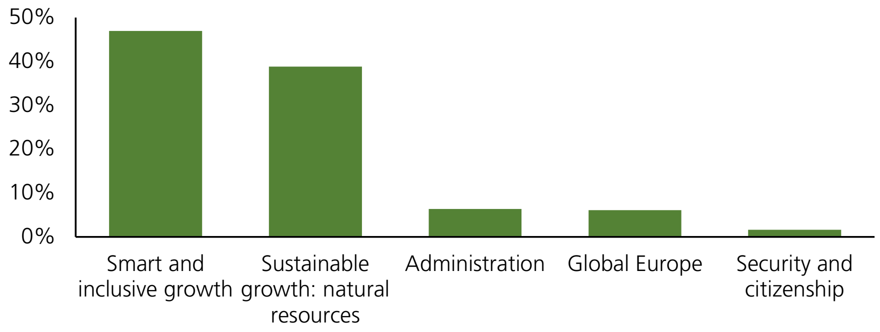
After adjusting for inflation, spending in MFF 2014-20 will be lower than during its predecessor, MFF 2007-13.

Under MFF 2014-20 the majority of the EU's spending falls into two broad categories:

- 47% for 'smart and inclusive growth', which includes programmes that aim to achieve the EU's aims for economic growth, jobs, competitiveness and cohesion.
- 39% for agricultural programmes under the category of 'sustainable growth: national resources'

Section 1.2 discusses these broad categories in greater detail.

Chart 1. MFF 2014-20 spending categories, % of total



The MFF is negotiated at the same time as the EU negotiates how it will raise revenues to pay for its spending. However, the two are set out in different regulations (see Box 2). Appendix 1 provides further information on MFF 2014-20 negotiations, subsequent revisions and its mid-term review.

dividend and interest payments received from other countries, less similar payments made abroad. GNI measures output produced by residents of a country, regardless of whether they are produced in the country or not.

3 IFS. *The budget of the European Union: a guide, 6 April 2016*, page 6

5 Council of the European Union News Release PRESSE 439, Council adopts the multiannual framework 2014-2020, 2 December 2013

Box 1: The EU institutions

European Council

The European Council is the highest-level decision-making forum in the EU, consisting of the heads of state or government of the Member States, together with the Presidents of the European Council and the European Commission. The European Council gives the EU its ultimate political direction, which it does by adopting 'conclusions' at the end of its meetings. The European Council has no powers to pass laws. It adopts conclusions on the Multiannual Financial Framework.

European Commission (the Commission)

The European Commission is the executive of the EU: it proposes legislation and implements policy within the competences laid down by the EU Treaties. It produces drafts of the MFF and annual budget. There are 28 members, one from each Member State, known as Commissioners. The Commission has the following general functions: policy-making; Treaty guardianship; policy implementation and delegated powers; management of EU funds; representation in trade negotiations and other agreements with third countries.

The Council of the European Union (the Council)

The Council is made up of ministers of the governments of Member States. It is one of the two principal legislative and decision-making bodies of the EU, along with the European Parliament. It also shares responsibility with the Parliament for setting the EU's annual budget. It is headed by a rotation of Member States which act as its President, otherwise known as the Presidency of the Council of the EU.

The composition of the Council varies according to the business under discussion. For example the Economic and Affairs (Ecofin) Council gathers finance ministers to discuss economic policy.

European Parliament

The European Parliament is the assembly of elected representatives of EU citizens. The representatives are known as Members of the European Parliament (MEPs). The European Parliament debates and passes law; scrutinises other EU institutions; and debates and adopts the EU's budget.

1.2 The annual budget

Each year the European Commission, the Council and European Parliament negotiate the EU's annual budget within the framework set out by the MFF. The process is described in appendix 2. The annual budget fleshes out the EU's spending for the year.

Spending in 2015

During 2015 the EU spent around €140 billion across five broad budget categories. Over half of the EU's spending either went directly to farmers or to programmes that help the least economically developed EU countries and regions.

The EU spent close to €140 billion in 2015.

Most significant items of spending

The EU's largest individual spending item is the direct payments it makes to farmers. Around 30% of the EU's spending in 2015 went on these subsidies that support farmers to have a decent standard of living and consumers to have a stable and safe food supply at affordable prices.

The EU's largest spending area is direct payments to farmers.

The second largest spending area are the EU's programmes that help the least economically developed EU countries and regions to catch up with the other Member States. These 'structural funds', individually known as the European Regional Development Fund and European Social Fund, accounted for over 25% of EU spending in 2015. The funds redistribute funding from richer counties and regions to poorer regions and countries, although all countries receive some funding.

Spending by budget category

Smart and inclusive growth (47% of spending in 2015) is split into two categories of spending:

(a) *competitiveness for growth and jobs (11% of 2015 spending)*

This includes programmes aimed at research and innovation, education and training, trans-European networks in energy, transport and telecommunications, infrastructure policy, support for businesses and satellite navigation systems.

Funds in this category are largely managed by the Commission. Organisations interested in participating in the programmes apply directly to the Commission for funding, often on a competitive basis.

The largest programmes under *competitiveness for growth and jobs* are Horizon 2020, Connecting Europe Facility and Erasmus+:

- Horizon 2020 made up over half of spending under *competitiveness for growth and jobs* in 2015. Horizon 2020 is the EU's fund for research and innovation. Universities and research laboratories are typical recipients of funding.
- Connecting Europe Facility (CEF) provides funding for infrastructure investment. The funds support development of trans-European networks in transport, energy and digital services.
- Erasmus+ supports education, training, youth and sport. It aims to boost skills and employability as well as modernising education, training and youth work. It provides opportunities for Europeans to study, train, gain work experience and volunteer abroad.

Competiveness for growth and jobs (11% of EU spending) includes the EU's research and innovation programme (Horizon 2020), funding for infrastructure investment (Connecting Europe Facility) and support for education, training, youth and sport (Erasmus+).

(b) *economic, social and territorial cohesion (37% of spending in 2015)*

This includes programmes that help the least economically developed EU countries and regions to catch up with the other Member States. The vast majority of funding is allocated directly to Member States to manage within the guidelines set out by the EU. All Member States receive some funding, but those with a greater concentration of less-developed regions receive relatively more.

The main programmes under *economic, social and territorial cohesion* include the European Regional Development Fund (ERDF), European Social Fund (ESF) and the Cohesion Fund. The first two of these funds – collectively known as 'structural funds' – make up over 70% of spending on *economic, social and territorial cohesion* in 2015 and over 25% of all EU spending in the year. The ERDF supports local economic growth, focussing on small and medium-sized enterprises, research and innovation and a low-carbon economy. The ESF funds training and skills projects aiming to improve employment and education opportunities.

The cohesion fund is aimed at Member States whose living standards – as measured by Gross National Income per person – are less than 90% of the EU average. The UK does not qualify for this fund. The cohesion fund is aimed at developing transport and the environment.

Economic, social and territorial cohesion (37% of EU spending) includes funding to develop regional economies (structural funds) and funding aimed at the Member States with lower living standard (cohesion funds).

Sustainable growth: natural resources (41% of spending in 2015) is the category for funding the EU's agricultural policies. The majority of funding is allocated directly to Member States to manage, within the guidelines set out by the EU.

The main fund – the European Agricultural Guarantee Fund (EAGF) – makes payments directly to farmers, and funds measures to regulate agricultural markets. It aims to ensure a decent standard of living for farmers and a stable and safe food supply at affordable prices for consumers. The EAGF makes up close to 80% of spending on *sustainable growth: natural resources* in 2015 and over 30% of all EU spending in the year.

EAGF is one pillar of the EU's main policy for agriculture, the common agricultural policy. The other pillar – the European Agricultural Fund for Rural Development (EAFRD) – aims to develop rural economies and increase the productivity of farming and forestry. 8% of EU spending in 2015 went on EAFRD.

Global Europe (6% of spending in 2015) includes support to the EU's foreign policies and international development. It includes the enlargement process, development assistance and humanitarian aid.

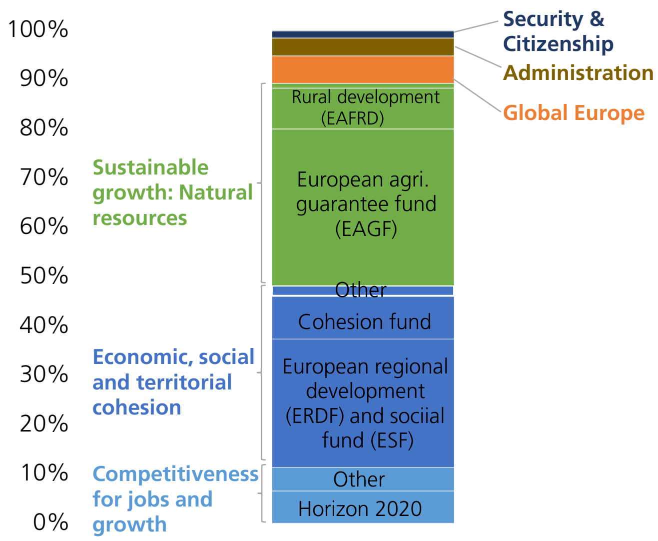
Administration (4%) includes spending on the cost of staff and members, buildings, information technology and security.

Security and citizenship (1% of spending in 2015) includes justice and home affairs, border protection, immigration, asylum, public health, consumer protection, culture, youth, and information for citizens.

Sustainable growth: natural resources (41% of spending) includes direct payments to farmers, which is the EU's largest spending area. This category also includes funding to develop rural economics and increase farming productivity.

Chart 2. EU spending 2015

% of total spending, by category and largest programmes



1.3 Further reading

- IFS, The budget of the EU: a guide, April 2016
- National Audit Office, Briefing on EU-UK finances, December 2016
- House of Commons Library, Brexit: UK Funding from the EU, December 2016

2. EU Budget: revenue

Summary

Revenues

- The EU must run a balanced budget: it therefore needs to raise at least enough revenue to covers its spending.
- The vast majority of the EU's revenue comes from Member States' contributions. In 2015:
  - 13% of EU revenue came from custom duties and sugar levies collected by Member States.
  - 12% of EU revenue come from contributions related to an adjusted measure of Member States' VAT-bases.
  - 69% of EU revenue came from contributions based on Member States' national income (as measured by gross national income).

  The remainder of the EU's revenue in 2015 came from other sources such as interest on late payments, and fines on companies breaching competition law. The EU also used revenues it didn't spend in 2014.

The UK's rebate

- The UK receives a rebate on its net contribution to the EU. This is the most famous exception to the rules governing how Member States contribute to the EU.
- The rebate was introduced in 1985 to lower the UK's net contribution which was relatively high.
- The UK's rebate is included in the EU's regulation for determining Member States' contributions. It can only be changed if all Member States – including the UK – agree.

2.1 Member States' contributions: own resources

The EU isn't able to borrow, it therefore needs to raise at least enough revenue to covers its spending.

Member states' contributions make up the vast majority of the EU's revenue.[6] Member States contribute through three sources, which are collectively known as 'own resources':

- customs tariffs and sugar levies
- contributions based on a measure of the VAT-base
- GNI-based contributions

Customs tariffs and sugar levies

Customs tariffs and levies made up 13% of EU revenues in 2015.

The EU is a customs union with goods coming into the union paying the same tariff irrespective of which Member State they are imported into. Member States collect the tariffs on the behalf of the EU, and these are seen as a natural source of funding for the EU Budget.

Member States pass tariffs collected to the EU but keep 20% to cover their cost of collection.[7] The Institute for Fiscal Studies say that this is a

[6] As stipulated in Article 311 Treaty on the Functioning of the European Union
[7] This change needs to be ratified by Member States

large proportion, given that the average collection costs for taxes are a small fraction of this.[8]

A very small proportion of revenues (less than 1%) come from a production charge paid by sugar producers. The levy recovers part of the cost of subsidising the export of surplus EU sugar onto the world market.

Belgium and the Netherlands make disproportionately large contributions from custom tariffs.[9] This is because many of the goods coming into the EU do so through Belgian or Dutch ports and are collected at the point of entry. This doesn't mean that the citizens of these countries are paying disproportionately more however since the goods on which the tariffs are paid will also be consumed by residents of other EU countries.

VAT based contributions

Member States contribute 0.3% of their adjusted, or harmonised, VAT-base to the EU budget. [10] The adjustment is discussed below.

VAT based contributions made up 12% of EU revenues in 2015

All Member States are obliged to have a VAT that conforms to requirements set out by the EU. In practice many Member States have obtained exemptions to the requirements and have choices over whether to tax certain products. This means the extent of Member States' VAT base can be quite different.

Due to the divergence in VAT bases the EU doesn't require Member States to contribute a proportion of their actual VAT-base. Instead the EU harmonises each Member States' VAT-base and applies a rate to their harmonised VAT-base. The harmonised base represents what each Member States' VAT-base would be if they followed the EU's VAT requirements.

Some Member States' harmonised VAT base are large relative to their national income. To lower the burden on these States their VAT contribution is capped. If the harmonised VAT base is more than 50% of GNI then the contribution is capped at 0.15% of GNI.

GNI based contributions

The GNI based contribution is used as a balancing item to ensure Member States' contributions are sufficient to cover the EU's spending. Each Member State pays the same proportion of its GNI to the EU budget. The proportion is set at a level that raises enough revenue to

GNI based contributions made up 69% of EU revenues in 2015.

8 Institute for Fiscal Studies. The budget of the European Union: a guide, April 2016, page 2

9 In 2015 Belgium made contributions of €159 per head of population, and the Netherlands €129 per head from customs duties and levies. The average across EU Member States was €37 per head of population.

10 For 2014 – 2020 Germany, the Netherlands and Sweden will pay a reduced rate of 0.15%

make up the difference between the EU's planned spending and what it expects to raise from all other sources.

In 2015, Member States contributed 0.66% of their GNI to balance the EU's budget.[11]

2.2 Other revenues and surplus

6% of EU revenues came from sources other than Member States, including 1% which came from a surplus in 2014's revenues.

The EU receives other revenues outside of Member States' contributions. Contributing around 5% of EU revenues in 2015, other revenues include taxes on EU staff salaries, contributions from non-EU countries to certain programmes, interest on late payments, and fines on companies breaching competition law etc.

While the EU cannot spend more than its revenues, there may be unspent revenues at the end of the year. Such surpluses can be used in the following year. 1% of EU revenues in 2015 came from 2014's surplus.

Box 2: EU regulation on Member States' contributions and the MFF

Details of how Member States contribute to the EU budget are laid out in the EU's Own Resources Decision (ORD).[12] The regulation is negotiated at the same time as the Multiannual Financial Framework (MFF) – which as discussed in section 1, sets out the EU's spending plans – but the two are set out in different regulations. The MFF is set out in a council regulation of 2 December 2013.

A new ORD was adopted by the Council on 26 May 2014 and entered into force on 1 October 2016.[13] There is a time lag between the ORD being adopted and entering into force because each Member State must approve changes to the ORD. The European Union (Finance) Act 2015 provided the UK Parliament's approval.[14]

The new ORD:

- Lowered the proportion of customs duties that Member States could keep to cover collection costs to 20%. Previously it was 25%.
- Provided Denmark (€130 million), the Netherlands (€695 million), and Sweden (€185 million) with gross reductions in their annual GNI contribution. Austria will benefit from reductions up to 2016 of €30 million in 2014, €20 million in 2015, and €10 million in 2016.
- Reduced the VAT call rate – the percentage applied to the harmonised VAT-base – for Germany, the Netherlands and Sweden for the period 2014-20 only. Over the period their call rate shall be 0.15% compared to 0.3% for all other Member States.

The UK receives a rebate to lower its net contribution to the EU budget (see section 2.3). Since being introduced the rebate has been included in the ORD. The new ORD makes no substantive changes to the rebate calculation, but removes some provisions from the regulations which expired at the end of 2013.

A group, chaired by former Italian Prime Minister and EU Commissioner Mario Monti, has published a review of the own resources system in January 2017. The group had been tasked with examining how EU revenues could become more transparent, fair, simple and democratically accountable. The group

[11] European Commission, EU budget 2015: financial report, 2016

[12] Council of the European Union, Council Decision of 7 June 2007 on the system of the European Communities' own resources, OJ L 163, 23.6.2007

[13] Council of the European Union, Council decision on the system of own resources of the European Union 2011/0183 (CNS), 12 February 2014

[14] The Library produced a briefing for second reading of the European Union (Finance) Bill 2015-16.

has made a series of recommendations that will feed into negotiations over the next MFF and updates to the Own Resources Decision. Negotiations are expected to begin in 2018. The group's report calls for reform on both sides of the EU budget: both spending and revenue. It recommends that there should be more EU revenues stemming from production, consumption and environmental policies. New revenues should, according to the group, alter the composition of the EU's revenues rather than increase the total revenue available to the EU. The group is also keen that the overall costs and benefits of EU membership should be better reflected and that correction mechanisms should end.

Further details are available in Appendix 1 of this briefing

2.3 The UK's rebate

There are exceptions to the rules on how Member States contribute to the EU budget. The UK's rebate on its net contributions is perhaps the most famous.[15] The rebate was worth between £3 billion and £5.4 billion to the UK between 2009 and 2015.

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 spending went on agriculture.[16] At the same time the UK made relatively high contributions to the budget, despite being among the less well-off Member States at the time.

The UK's rebate was introduced in 1985 as the UK was making relatively larger net contributions than other Member States.

The UK's rebate is included in the regulation that determines how Member States contribute to the EU budget (the own resources decision, see Box 2). This has essentially made the rebate permanent: it 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.[17] However, certain parts of the EU's spending are excluded from the deduction, including EU overseas aid, and non-agricultural spending in new Member States that joined the EU after April 2004. This final exclusion was introduced to ensure that the UK contributed to the costs of enlarging the EU.

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.

15 The European Parliament Research Service's briefing The UK 'rebate' on the EU budget discusses other correction mechanisms that favour other Member States.
16 Or European Economic Community as it was then known
17 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.

The 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.

The rebate is deducted from the UK's VAT 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 cost of the reductions for Germany, the Netherlands, Austria and Sweden are met by the other Member States.

Box 3: Origins of the rebate

When the UK joined the then-European Economic Community (EEC) in 1973 the UK's net contribution was high. The UK received relatively little from the budget: it had a small agricultural sector, but most EEC spending went on agriculture. At the same time the UK made relatively high contributions to the budget, despite at the time being among the less well-off Member States.

Temporary correction mechanisms to address the imbalance were introduced in 1975 and then 1979. In June 1984 – at a European Council meeting held at Fontainebleau – Member States agreed a specific rebate mechanism that remains largely similar to that used today.

3. Member States' contributions and receipts

Summary

Generally speaking the EU budget is redistributive:

- richer Member States contribute more to the EU budget than they receive from it – they are net contributors to the budget.
- poorer Member States receive more from the EU budget than they contribute to it – they are net recipients from the budget

In 2015 the UK made the second largest net contribution to the EU budget in absolute terms, and the third largest net contribution per head of population.

Whether a Member State is a net contributor to, or net recipient from, the EU budget does not constitute an economic assessment of its membership of the EU. It simply considers the direct flows of contributions and receipts to and from the EU budget. An economic assessment of membership must consider all costs and benefits of EU membership, not just those directly related to the EU budget.

In 2015 the UK made the second largest net contribution to the EU budget in absolute terms, and the third largest net contribution per head of population. The UK's net contribution was €14.0 billion, or €215 per head of population in 2015. The figures are from the European Commission.

Box 4: Different ways to measure the UK's net contribution

There are different ways of calculating the UK's net contribution to the EU budget. Figures produced by HM Treasury, not discussed in this briefing, only include EU receipts that are allocated directly to the UK government to manage. The Commission's data, used in this briefing, also includes funding that it allocates directly to UK organisations.

HM Treasury also allocate payments to years differently to the European Commission.

This briefing uses the Commission's data as it is the only source which offers comparable data across Member States.

There is more on this in the Library briefing The UK's contribution to the EU budget.

The net contribution shouldn't be confused with an assessment of the overall economic benefit, or cost, to the UK of being in the EU. 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 the UK exchequer from being a member of the single market. A number of 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.

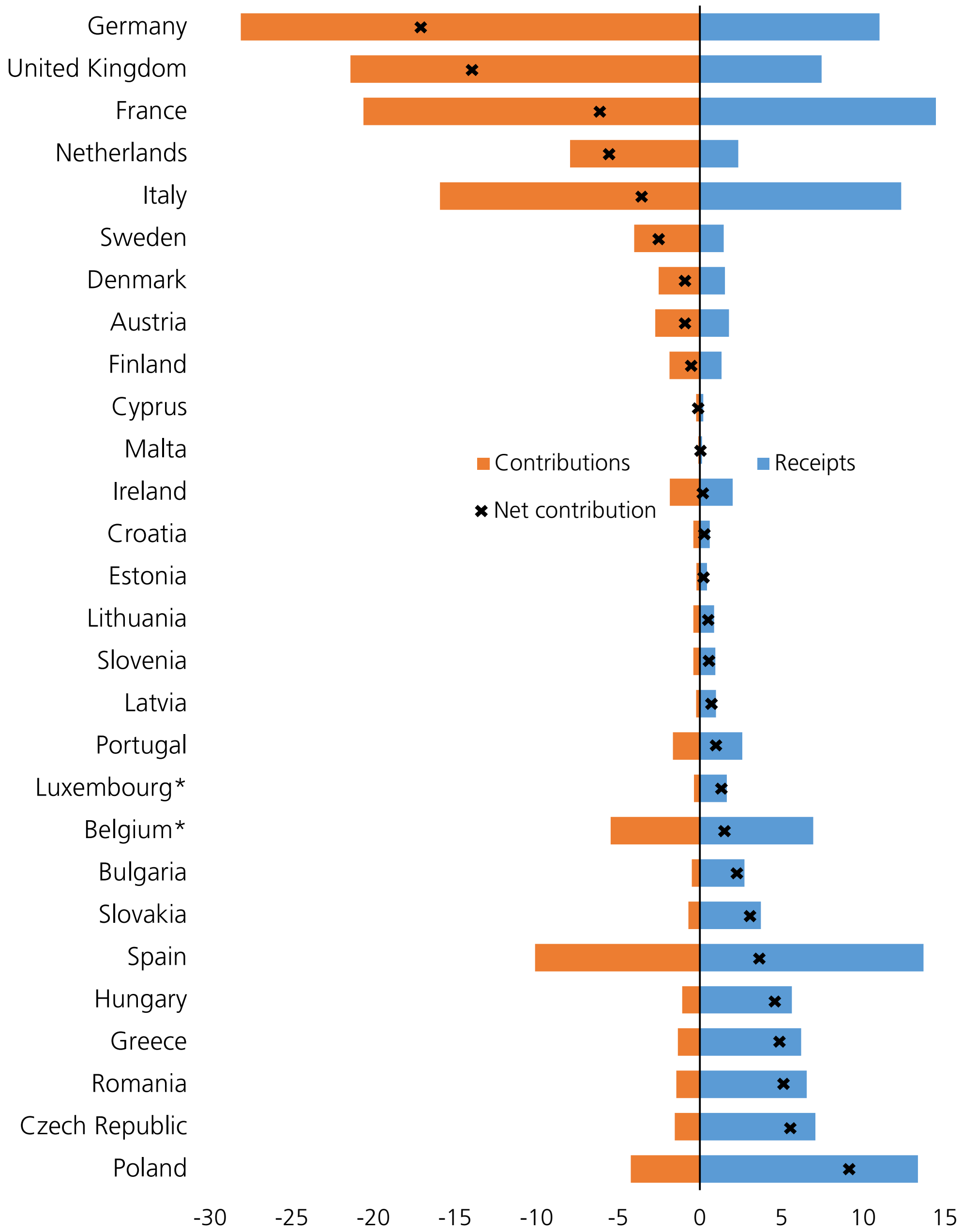
Generally speaking, the richer Member States are net contributors to the EU budget; in other words, they contribute more to the budget than they receive from it. As chart 3 shows, in absolute terms, Germany made the largest net contribution, followed by the UK and France. Per head of population the Netherlands made the largest net contribution, followed by Denmark and the UK, as shown in chart 4.

Generally speaking, richer Member States contribute more to the EU budget than they receive from it. Poorer Member States receive more from the EU budget than they contribute to it.

Poorer states are generally net recipients – they receive more from the EU budget than they pay in. The 14 states with the lowest GNI per head of population are all net recipients from the EU budget.

There are exceptions to the above statements. Most notably, given their relative economic prosperity, Belgium and Luxembourg are relatively large net recipients from the EU budget. This is largely because they are home to the EU's headquarters and therefore receive large amounts of the EU's administration spending. This spending doesn't disproportionately benefit the citizens of Belgium and Luxembourg and needs to be taken into account when considering the extent to which the people of these countries benefit from the EU budget. The Institute for Fiscal Studies – an economic think tank – looked at the EU budget for 2014 and made some adjustments for the administrative spending. After the adjustments Luxembourg remained a net recipient, although to a much smaller extent, and Belgium became a net contributor.

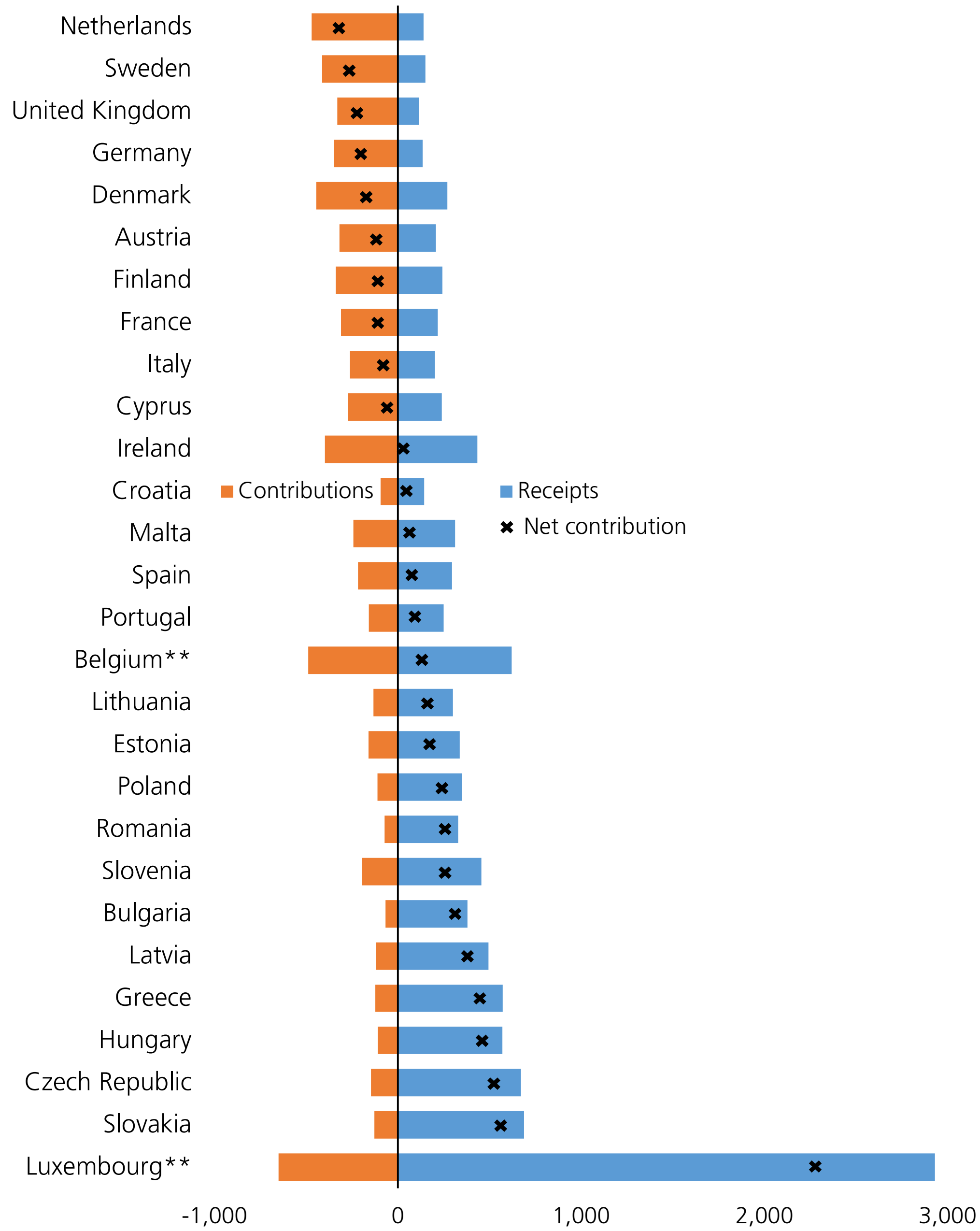
Chart 3. Member state contributions to the EU budget, receipts from the EU budget, and net contribution, 2015, € billion



notes: * since the EU's headquarters are based in Luxembourg and Belgium these Member States receive large amounts of money from the EU. However, it isn't correct to say that residents of these countries benefit disproportionately from this administrative expenditure.

source: European Commission. EU expenditure and revenue 2014-2020

Chart 4. Member state contributions to the EU budget, receipts from the EU budget, and net contribution, 2015, € per head of population



notes: * since the EU's headquarters are based in Luxembourg and Belgium these Member States receive large amounts of money from the EU. However, it isn't correct to say that residents of these countries benefit disproportionately from this administrative expenditure.

sources: European Commission. EU expenditure and revenue 2014-2020
Eurostat (demopjan)

Appendix 1: Multiannual financial framework – further details

MFF 2014-20: negotiations

When the Council adopted the MFF regulation on 2 December 2013 it brought to an end negotiations between the EU institutions which began two and a half years prior.[18]

Negotiations began with the Commission putting forward an initial draft proposal. Spending commitments in the adopted MFF regulation were 7.1% lower than in the Commission's draft proposal.

European Commission

The Commission proposed a draft MFF Regulation in June 2011.[19] The proposal froze spending limits at their 2013 level. Amendments were made in July 2012 to take into account Croatia's accession (scheduled for mid-2013), the Commission's new macroeconomic forecasts and new regional and national economic data.[20] The amended draft proposed commitments of €1,033 billion and payments of €988 billion.

European Council

At a European Council meeting on 7-8 February 2013 political agreement was reached on the MFF regulation, as detailed in the meeting's conclusions.[21,22]

The agreement set the spending limit for commitments at just under €960 billion. This is a real terms reduction of 3.5% compared with MFF 2007-13 and 7.1% below the Commission's proposals.[23] The agreement set a payments limit of €908 billion, 8.4% below the Commission's proposals.

Political agreement reached

June 2013 saw the Presidents of the Commission, the European Parliament and the Council reach political agreement on an MFF package that confirmed the limits proposed by the European Council, and also included more flexibility for payments and commitments.[24,25]

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18 The Council of the European Union COUNCIL REGULATION laying down the multiannual financial framework for the years 2014-2020, 25 November 2013
19 COM(2011) 398 final, 29 June 2011
20 COM(2012) 388 final, 6 July 2012
21 European Council. 7/8 February 2013. Conclusions (Multiannual Financial Framework), 8 February 2013
22 A previous meeting, held on 22- 23 November 2012, failed to reach agreement.
23 Council of the European Union website, Summary of the European Council agreement, accessed 4 Mar 2013
24 European Commission Press Release, Political Agreement on EU's Future Budget 2014 -2020, 27 June 2013
25 Further details of these flexibilities are available from the European Commission website: http://ec.europa.eu/budget/mff/introduction/index_en.cfm

European Parliament and adoption

On 19 November 2013, the European Parliament gave its consent to the MFF regulation[26] paving the way for the Council to adopt the regulation on 2 December 2013.

The European Parliament gave its consent once conditions that it was concerned with, and had raised after the June 2013 political agreement, were met. The major conditions were for all outstanding bills for 2013 to be settled and a high-level group on own resources to be set up (see below).[27]

MFF 2014-20: revision

The late adoption of the MFF 2014-20 meant that some of the funds allocated for 2014 were not able to be used in that year. The MFF has been revised, and adopted, to ensure that the programmes could be fully implemented in 2015.[28]

The programmes affected include: the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development, the European Maritime and Fisheries Fund, the Asylum, Migration and Integration Fund, and the Internal Security Fund (ISF).

MFF 2014-20: mid-term review

The deal negotiated on the MFF included the promise of a review of MFF 2014-20 in 2016 at the latest. The review will allow the next European Parliament and Commission to reassess the MFF's priorities, and may lead to revision of the MFF 2014-20 regulation.

The Commission published its mid-term review and accompanying legislative proposals in September 2016.[29] The Commission's report considers the state of implementation and challenges of MFF 2014-20; strengthening the EU budget's focus and flexibility to deliver on priorities and new challenges; and issues for the next MFF.

The Council is currently considering the review. Broad support has been reached, but one Member State cannot yet give its agreement. Once

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26 European Parliament, European Parliament legislative resolution of 19 November 2013 on the draft Council regulation laying down the multiannual financial framework for the years 2014–

27 European Parliament, Long-term EU budget negotiations: EP sets out its stance, News Release ref: 20130312IPR06440, 13 March 2013

28 For further detail see: Council of the European Union press release, EU budget: Council preserves funds for promoting growth and jobs, 21 April 2015; and, European Parliament Research Service, Revision of the Multiannual Financial (Article 19, MFF Regulation) 23 March 2015

29 European Commission: Mid-term review/revision of the multiannual financial framework 2014-2020: An EU budget focused on results, COM(16) 603; Proposal for a COUNCIL REGULATION amending Regulation (EU, Euratom) No 1311/2013 laying down the multiannual financial framework for the years 2014-2020 COM(16) 604

unanimous agreement has been reached in the Council the European Parliament has to give its consent.[30]

The European Parliament Research Service's briefing 2014-2020 Multiannual Financial Framework (MFF): Mid-term revision includes further information.

High-level group on own resources

A high-level group, chaired by former Italian Prime Minister and EU Commissioner Mario Monti, has published a review of the own resources system in January 2017. The group had been tasked with examining how EU revenues could become more transparent, fair, simple and democratically accountable.

The group made a series of recommendations:

- reform of both the EU's revenue and spending is necessary.
- certain principles should guide reform. These include a focus on areas that bring the biggest 'European Added Value' and budget neutrality, that is the composition of revenues should change, but the total amount of revenues should not increase.
- the principle of budget balance (revenues meeting expenditure), customs duties and levies, and using GNI to balance the budget should remain.
- a new mix of revenues should be considered including those that improve the functioning of the single market and those that relate to energy union, environment, climate of transport policies;
- revenue from other sources should be considered – for example, auctioning proceeds or other revenue stemming from EU policies.
- The wider costs and benefits from EU membership should be better reflected
- correction mechanisms should be abolished
- there should be greater coherence between EU and national budgets
- a certain degree of flexibility should be allowed on the fundamental budgetary principles of unity and universality. The euro area is specifically mentioned as an area where there could be some differentiation on revenues.

The group was keen to stress that the EU does not have the power to levy taxes, only Member States do. Reform would not seek such powers for the EU.

The group put forward possible candidates for new EU revenues:

- revenues related to the single market and fiscal coordination:
  - a reformed VAT-resource
  - an EU corporate income tax
  - a financial transaction tax and other financial activities' tax

[30] Council Press Release, General Affairs Council, 13/12/2016

- Revenues related to the Energy Union, environment, climate or transport polcies:
  - a CO2 levy
  - proceeds from the European emission trade system
  - an electricity tax
  - a motor fuel levy
  - indirect taxation of imported goods produced in third countries with high emissions

The group's recommendations will feed into negotiations over the next MFF and updates to the Own Resources Decision. Negotiations are expected to begin in 2018.

A press release, factsheet and Q&A were published alongside the final report.

Previously, in December 2014, the group published a first assessment.[31] A European Parliament Research Service briefing summarises the first assessment, and reports an intermediate and tentative conclusion that:

> "the financing system of the EU has not experienced any major modifications over the last 25 years, proving difficult to change."[32]

[31] The European Communities (Finance) Act 2008 gave effect in UK law to the 2007 ORD. The Library's Research Paper The European Communities (Finance) Bill discussed the Bill prior to its second reading.

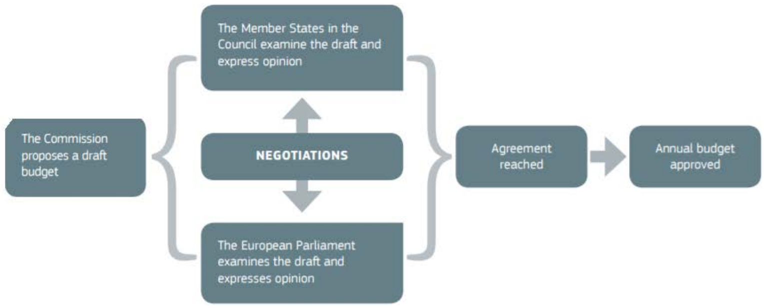
[32] European Parliament Research Service. 'Monti' Group's first assessment of EU own resources, February 2015

Appendix 2: annual budget process

The process

Each year the EU's annual budget is negotiated by the Commission, Council and European Parliament. The budget is negotiated within the spending limits set out in the MFF.

The process is set out in some detail below, but the Commission has summarised it in the below image.



Commission's draft budget

The annual budget cycle begins with the Commission proposing a draft budget based on the MFF. The current MFF was set at 2011 prices and an adjustment is made at the beginning of each year to take account of changes in Gross National Income (GNI) forecasts, price changes and other 'technical' changes.

The Commission must submit its draft budget to the Council and European Parliament by 1 September of the preceding year. In practice, the Commission aims to present the draft budget in April/May.

The Council's and European Parliament's reading

The Council adopts its position on the draft budget and passes it to the European Parliament before 1 October. The budget is then adopted if, within 42 days, the European Parliament either approves the Council's position or does not take a decision. If the European Parliament does make amendments and these are accepted by the Council within 10 days then the budget can also be adopted.

Conciliation Committee

If agreement cannot be reached between the Council and the European Parliament a Conciliation Committee is set up, composed of the members of the Council or their representatives and an equal number of members representing the European Parliament. The Committee is tasked with reaching agreement on a joint text within a period of 21 days. If this fails then the Commission has to produce a new draft budget.

Once a joint text is agreed by the Conciliation Committee in early November, the Council and the European Parliament have 14 days to approve or reject it. The European Parliament may adopt the budget even if the Council rejects the joint text. If the Council and the European

Parliament both reject the joint draft or fail to decide, the budget is rejected and the Commission has to submit a new draft budget.

Failure to adopt a budget

If, at the beginning of the year, the budget has not yet been definitively adopted, the system of 'provisional twelfths' kicks in, essentially rolling over 1/12 of the previous year's budget each month.

The annual budget: amending budgets

The Commission may during the year propose the adopted budget be amended; it does this by submitting draft amending budgets. Similarly the Commission may present a letter of amendment to the draft budget in the light of information which was not available when the draft was established.

The 2017 budget

European Commission's draft

The Commission presented the 2017 draft budget on 30 June 2016.[33] The Commission proposals amounted to commitments of €157.7 billion and payments of €134.9 billion. These figures represent a 1.7% increase in commitments and a 6.2% decrease in payments in cash terms compared with the 2016 budget.[34]

Council's position

The Council adopted its position on the 2017 draft budget on 12 September 2016. The Council's position is for commitments of €156.4 billion and payments of €133.8 billion. These figures – which are lower than Commission's proposals – represent a 0.9% increase in commitments and a 7.0% decrease in payments in cash terms compared with 2016.[35]

Parliament's position

The Parliament adopted it position on 26 October 2016, calling for higher commitments (€162.4 billion) and payments (€138.0 billion) than in the Commission's draft.[36,37]

Conciliation Committee

The Council informed the Parliament that it cannot accept all its amendments for the 2017 budget. This triggered a three-week conciliation period beginning on 28 October and ending on 17 November.

The Conciliation Committee reached agreement on commitments of €157.86 billion and total payments at €134.49 billion. The EU budget for 2017 was adopted on 1 December following the Council's and Parliament's go-ahead.[38]

2017 budget negotiations

Commission draft budget proposed commitments of €157.7bn and payments of €134.9bn.

The Council proposed commitments of €156.4bn and payments of €133.8bn.

The Parliament proposed commitments of €162.4bn and payments of €138.0bn.

Agreement was reached in conciliation committee with commitments of €157.9bn and payments of €134.5bn

33 European Commission, Draft General Budget 2017, June 2016
34 European Commission Press Release, Draft EU Budget 2017: Commission proposes a budget focused on priorities - growth, jobs and a solid response to the refugee crisis, 30 June 2016 & House of Commons European Scrutiny Committee, Eight Report of Session 2016/17, HC71-vi, Chapter 2, 19 July 2016
35 European Council Press Release, EU budget for 2017: Council sets out its position, 12 September 2016
36 European Council Press Release, EU 2017 budget: Council cannot accept EP amendments, 26 October 2016.
37 Figures include appropriations for special instruments
38 Council Press Release, EU Budget for 2017

The 2016 budget

On 14 November 2015, the Council and the European Parliament reached an agreement on the 2016 EU budget. Meeting in the Conciliation Committee they agreed to set commitments at €155.0 billion and payments at €143.9 billion.

European Commission's draft

The Commission presented the 2016 draft budget on 27 May 2015.[39] The Commission proposals amounted to commitments of €153.5 billion and payments of €143.5 billion; these figures represent a 5.2% decrease in commitments and a 1.6% rise in payments in cash terms compared with the 2015 budget.

The Council's and European Parliament's positions

The Council's position, adopted on 4 September, called for the draft budget to be reduced to €153.3 billion in commitments and €142.1 billion in payments.

On the other hand, the European Parliament called for increases to the draft budget. The Parliament's position, adopted on 28 October 2015, called for an increase of total commitments to €157.4 billion and total payments to €146.5 billion. The Parliament's positions were above the ceilings of the multiannual financial framework.[40]

Conciliation Committee

With the Council and European Parliament unable to agree, a Conciliation Committee was established on 29 October 2015. On 14 November 2015 an agreement was reached which sets commitments at €155.0 billion and payments at €143.9 billion.

On 24 November the Council approved the agreement. The budget for 2016 was adopted on 25 November, when the European Parliament confirmed the agreement.

2016 budget negotiations

Commission draft budget proposed commitments of €153.5bn and payments of €143.5bn

The Council proposed commitments of €153.3bn and payments of €142.1bn

Parliament proposed commitments and payments of €157.4bn and payments of €146.5 billion

Agreement was reached in conciliation committee with commitments of €155.0bn and payments of €143.9bn

39 European Commission, Draft General Budget 2016, May 2015
40 Council of the European Union Press release, *Conciliation to start on 2016 EU budget*, 28 October 2015

The 2015 budget

The 2015 annual budget was agreed in December 2014 following difficult negotiations between the European Parliament and the Council. Commitments are €145.3 billion and payments €141.2 billion;[41] these figures represent a 1.8% increase in commitments and a 0.6% rise in payments in cash terms compared with the 2014 budget.

A major stumbling block for negotiations was a growing backlog in payments that have affected the EU budget in recent years. The Council wanted to cut the Commission's estimates of the resources needed. The European Parliament supported stepping up efforts to tackle the payments backlog, to reduce its negative consequences on beneficiaries of EU funds.

European Commission's draft

The Commission presented the draft EU budget for 2015 in June 2014. The Commission proposed €145.6 billion in commitments, and payments of €142.1 billion.[42] In cash terms these figures represent a 2.1% increase in commitments and a 1.4% rise in payments compared with budget 2014.

The Council's and European Parliament's positions

The Council agreed amendments to this draft budget in September 2014, proposing to reduce the Commission's proposal for commitments to €145.1 billion and payments to €140.0 billion.[43]

2015 budget negotiations

Commission draft budget proposed commitments of €145.6bn and payments of €142.1bn

The Council proposed commitments of €145.1bn and payments of €140.0bn

Parliament proposed commitments and payments of €146.4bn

Conciliation Committee failed to reach agreement.

Commission proposed a new draft with commitments of €145.2bn and payments of €141.3bn

Agreement reached with commitments of €145.3bn and payments of €141.2bn

[41] Council of the European Union website: http://www.consilium.europa.eu/en/policies/eu-annual-budget/eu-budget-2015/

[42] EC news release, 2015 EU draft budget to help Europe's economic growth despite financial constraints, 11 June 2014; EC, Draft General budget of the European Union for the financial year 2015, 24 June 2014; and, European Scrutiny Committee, Fifth Report of Session 2014-15, 9 July 2014, HC 219-v 2014/15

[43] Council news release, Council adopts position on 2015 EU budget, 2 September 2014

In October 2014, the European Parliament provided its position,[44] which would have set both commitments and payments to €146.4 billion.

Conciliation Committee and a new draft

With the Council and European Parliament unable to agree, a Conciliation Committee was established. On 17 November 2014 negotiations failed. The Commission presented a new draft budget for 2015 on 27 November 2014, trying to strike a balance between the positions adopted by the Council and the European Parliament. The new draft proposed commitments of €145.2 billion and payments of €141.3 billion. In cash terms these figures represent a 1.8% increase in commitments and a 0.7% rise in payments compared with budget 2014.[45]

Agreement

On 8 December 2014 negotiators from the European Parliament and the Council reached an agreement on the 2015 budget. The compromise saw commitments of €145.3 billion and payments of €141.2 billion. The deal reached also included some measures to address the payment backlog.[46]

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44 European Parliament, European Parliament resolution of 22 October 2014 on the Council position on the draft general budget of the European Union for the financial year 2015

45 EC press release, Budget 2015: Commission makes new proposal to Parliament and Council, 28 November 2014; EC Budget Online; European Scrutiny Committee, Twenty-Sixth Report of Session 2014-15, 10 December 2014, HC 219-xxv 2014/15

46 For further information see: European Parliament Research Service, The bumpy road to the 2015 EU budget, 11 December 2014.

The 2014 budget

The 2014 annual budget was the first executed under MFF 2014-20.[47] It was agreed in November 2013 following a Conciliation Committee. Commitments are €142.6 billion and payments €135.5 billion; both figures are 6.2% lower compared to the 2013 budget.

European Commission's draft

The Commission presented the draft EU budget for 2014 in June 2013. The Commission proposed €142.0 billion in commitments and payments of €135.9 billion;[48] both figures were 5.8% lower compared to the 2013 budget.

The Council's and European Parliament's positions

The Council agreed amendments to the draft budget in September 2013, proposing to reduce the Commission's proposal for commitments to €141.7 billion and payments to €134.8 billion.[49]

In October 2013, the European Parliament provided its position,[50] which would have set commitments to €142.6 billion and payments to €136.1 billion.

Agreement through Conciliation Committee

Agreement was reached through a Conciliation Committee in November 2013. The adopted 2014 EU budget provides for commitments of €142.6 billion and payments of €135.5 billion.[51]

2014 budget negotiations

Commission draft budget proposed commitments of €142.0bn and payments of €135.9bn

The Council proposed commitments of €141.7bn and payments of €134.8bn

Parliament proposed commitments of €142.6bn and payments of €136.1bn

Agreement was reached through Conciliation Committee with commitments of €142.6bn and payments of €135.5bn.

47 Further details are available in EC. Financial Year 2014. Report on budgetary and financial management

48 EC news release, Commission tables proposal in tune with today's Europe, 26 June 2013, and EC website

49 Council news release, Council adopts position on 2014 EU budget, 2 September 2013

50 European Parliament, European Parliament resolution of 23 October 2013 on the Council position on the draft general budget of the European Union for the financial year 2014

51 2014/67/EU, Euratom: Definitive adoption of the European Union's general budget for the financial year 2014

BRIEFING PAPER

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