



BRIEFING PAPER

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Brexit: the financial settlement - a summary

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2. What's the cost of the settlement?



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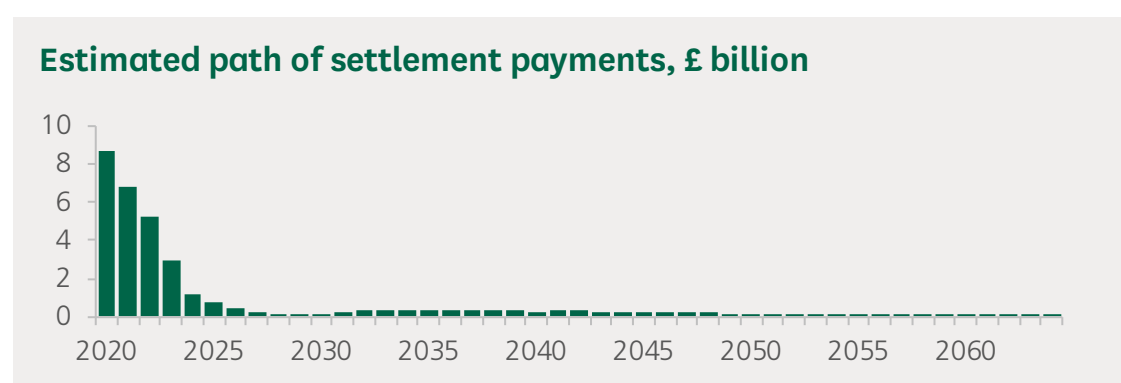
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Summary

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

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

There is no definitive cost to the settlement. The final cost to the UK will depend on future events such as future exchange rates and EU budgets. The Office for Budget Responsibility (OBR) estimate that the net cost to the UK may be £33 billion.



Underlying principles

The UK and EU agreed some principles for the settlement:

- 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 means that the UK will make payments based on the outturns of EU budget.

What is included in the settlement?

Broadly speaking, the settlement can be split into three components:

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

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Not everything in the settlement fits neatly into these three components. For instance, the UK has agreed to continue to contribute to the EU's main overseas aid programme – the European Development Fund – until the current programme ends. This programme is funded directly by Member States, rather than through the EU budget. The UK's contribution counts towards its commitment to [spend 0.7% of national income on overseas aid](#).

The OBR estimates that the UK will make £33 billion of net payments

Estimated cost of the settlement and its components, £ billion

	Payment period	£ billion
UK participation in EU Budget 2020 (net)	2020	8.9
Reste à liquider	2021-2028	19.2
Other net liabilities	2020-2064	4.8
Total	2020-2064	32.9

Sources: OBR. Economic and fiscal outlook – March 2020, supplementary fiscal tables 4.14 & 4.15

The Library briefing [Brexit: the financial settlement – the detail](#) covers the settlement in more depth including topics such as the settlement's origins, negotiations and the legal form it takes in the Withdrawal Agreement.

1. The financial settlement

1.1 What is the financial settlement?

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

The settlement was agreed during withdrawal negotiations and is part of the Withdrawal Agreement, which is the legally binding treaty setting out the negotiated terms of the UK's departure from the EU.

The financial settlement sets out how outstanding commitments will be honoured. The underlying principles of the settlement are that:¹

- 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 that the United Kingdom should pay based on the actual outcome of the budget

The Library briefing [Brexit: the financial settlement - in detail](#) has more on the negotiations, how the financial settlement is covered in the legal text of the Withdrawal Agreement and other issues.

Box 1: Timeline: Negotiations and ratification.

- June 2017. The European Commission set out what it expects from the settlement in a position paper.
- June – November 2017. The settlement is negotiated in the first phase of Brexit negotiations, along with other separation issues such as citizen's rights and the Ireland/Northern Ireland border. Broadly speaking financial settlement negotiations focus on the Commission's position paper.
- December 2017. A political agreement is reached on the financial settlement. It is published in a joint report along with the agreement reached on other separation issues.
- November 2018. A Withdrawal Agreement is agreed between Theresa May's Government and the EU. The Withdrawal Agreement (WA) sets out, in legal terms, how the financial settlement will be calculated and administered. It also sets out the practicalities for payments between the UK and EU after 2020.
- October 2019. Boris Johnson's Government negotiates and publishes a revised Withdrawal Agreement. There are no changes to the financial settlement.
- January 2020. The European Union (Withdrawal Agreement) Act 2020 becomes UK law. The European Parliament gives its consent to the Withdrawal Agreement. This means that the financial settlement becomes legally binding. The UK leaves the EU.

The Library briefing paper [Brexit: the financial settlement – in detail](#) has more information.

¹ These principles are laid out in the [communication from the Commission to the Council on the state of progress of the negotiations with the United Kingdom under Article 50 of the Treaty on European Union](#), 8 December 2017

1.2 What are the components of the settlement?

The financial settlement may cost the UK around €33 billion by the time the final payment is made, possibly in the 2060s. It is broadly split into three component parts.

The transition period, February-December 2020 ***Estimated at a net cost of around £9 billion***

During the transition period, until the end of 2020, the UK will pay into the EU budget almost as if it were a Member State. The UK will also receive funding from EU programmes, such as structural funding.

UK participation in EU annual budgets to 2020

The UK is contributing to the EU Budget in 2020 broadly as if it were a Member State. Any changes made to the Budget or its financing after 31 January 2020 (the withdrawal date) will not apply to the UK. This means that UK's rebate will apply in 2020.²

EU Budgets are subject to corrections or adjustments after the year is over. The UK will take part in any revenue adjustments relating to the 2020 EU Budget. Any amounts to be returned to, or returned by, the UK will be calculated as if the UK remained in the EU.

UK participation in programmes

The UK will continue to participate in EU programmes funded from the current budget plan (MFF 2014 – 2020; see Box 1.1) until they close. The UK 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 funding allocated directly by the Commission is largely through Horizon 2020 – the EU's research and innovation programme. The OBR forecasts that the UK beneficiaries will receive around €2 billion from the Commission in 2020,³ although it isn't clear how much was received as a Member State in January 2020.

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

² The Library briefing [The UK's contribution to the EU Budget](#) has more on the rebate.

³ OBR. Economic and fiscal outlook – March 2018, [Annex B](#)

Box 2.1: EU spending plans: multiannual financial frameworks (MFF)

The EU plans its spending over seven-year periods through the Multiannual Financial Framework (MFF).⁴ 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 MFF provides a framework through which the annual budgets are negotiated. It aims to ensure that the EU's spending evolves in line with its policies.

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

The [regulations](#) for most of the EU's spending programmes are adopted alongside the MFF. These legal bases provide a reference amount of money to be spent on each programme over the period.

Further details are available in the Library briefing [A guide to the EU budget](#).

EU budget outstanding commitments - *reste à liquider*

Estimated at a net cost of around £19 billion

In their annual budgets the EU commit to some future spending without making payments to recipients at the time. The commitments will become payments in the future. The EU refer to outstanding commitments as *reste à liquider* (RAL). The UK will contribute towards the financing of the RAL outstanding at 31 December 2020 and any carried over from the 2020 budget.

The total applicable RAL will be adjusted to account for the actual amount 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.

The OBR estimate that at the end of December 2020 the EU's RAL will be around €254 billion, after decommitments.⁵ The figure is uncertain. Some of the RAL will be receipts owed to the UK.

In March 2020, the OBR estimated that the UK will make net RAL payments of £19 billion, between 2021 and 2028.⁶⁷

Net liabilities

Estimated at a net cost of around £5 billion

The UK will share the financing of the EU's liabilities incurred before 31 December 2020. Only those liabilities without corresponding assets are included.⁸

The pensions and other benefits of EU employees are the most significant liabilities. Like the UK civil service pension scheme, the EU's

⁴ The MFF must cover a period of at least five years.

⁵ OBR. [Economic and fiscal outlook – March 2020](#), supplementary table 4.13

⁶ HM Treasury, EU Finances 2018, June 2019, [Table E.1](#)

⁷ Figures don't sum due to rounding

⁸ See box 2.2 of [Brexit: the financial settlement – in detail](#) for examples of assets and liabilities not included in the settlement

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. It is likely that the UK will contribute towards these pensions over many years as the UK will not be required to pay for them until they arise. The OBR forecast that the final payment will be made in the 2060s, although the UK can request to pay its outstanding pension liability earlier if it wishes.⁹

The OBR estimate that the UK will have contributed £11 billion to EU pensions once the final payment is made. There is uncertainty over this estimate which will be affected by future events including salaries and mortality rates.¹⁰

European Investment Bank

EU Member States are members of the European Investment Bank (EIB). As an EIB member the UK agreed 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.

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.

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 annual instalments until 2030. Payments were due to start in December 2019, but the UK hadn't left the EU at this point. It is likely that the payment for 2019 will be made at the same time as 2020's payment.¹¹ The UK's paid-in capital will be replaced by an additional callable guarantee.

European Central Bank

The UK will be reimbursed for its paid-in capital of €55 million in the European Central Bank. The capital will be reimbursed to the Bank of England.

European Coal and Steel Community

The UK will receive five payments for its share of the liquidated net assets of the European Coal and Steel Community. Five equal payments will be made on 30 June of each year starting on 30 June 2021.

European Investment Fund

The UK's share of capital paid into the European Investment Fund (EIF) will be returned. The EIF is part of the European Investment Bank (EIB) group and provides risk finance to benefit small and medium-sized enterprises (SME). Five equal payments will be made on 30 June of each year starting on 30 June 2021.

⁹ [Article 142\(6\)](#) of the Withdrawal Agreement

¹⁰ OBR. Economic and fiscal outlook – March 2019, supplementary table 4.17

¹¹ If the payment for 2019 is made at the time of the 2020 payment, the first payment will be €600 million. Ten payments of €300 million will then be made and a final payment of €196 million will be made on 15 December 2030.

Other EU payments to the UK

Other payments that the EU will make to the UK are included in the OBR's estimate for net liabilities of €3 billion. Some of these relate to guarantee funds held by the EU for investment funds (such as the European Fund of Strategic Investments and Guarantee Fund for External Action). The UK contributed to these guarantees and will receive a share back.¹²

Other settlement issues

Contingent liabilities

The UK will remain liable for its share of the EU's contingent liabilities as established at the date of withdrawal. Contingent liabilities are potential liabilities that may occur depending on the outcome of an uncertain event in the future. These liabilities include those related to financial operations – for instance for financial guarantees given on loans and financial assistance programmes – and legal cases. An example of a contingent liability is given in Box 1.2.

HM Treasury and the European Commission deem these contingent liabilities to be remote, which means they think it unlikely that they will result in a future cost.¹³

For those contingent liabilities related to financial operations, the UK's liability will only be affected by decisions adopted before the date of withdrawal.¹⁴

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 and provisions when the financial operations associated with some contingent liabilities decline.¹⁵

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. They are unlikely to result in future payments.

Box 1.2: Example of a contingent liability in the EU budget 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 who require the funding. The EFSM is no longer used to fund new loans, but the outstanding loans still exist.

If the countries who 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.

¹² [Paragraph B.27](#) of the OBR's Economic and Fiscal outlook – March 2018 has more on other payments being made by the EU to the UK.

¹³ The size of the remote contingent liabilities are shown in [Table E.3](#) of HM Treasury's EU finances report.

¹⁴ 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.

¹⁵ 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.

The UK's share

The EU's outstanding commitments (RAL), liabilities and contingent liabilities are recorded on an EU-wide basis. The UK's share of these will be based on the UK's percentage share of total contributions to the EU Budget over 2014 – 2020.¹⁶

The OBR estimates that the UK's share over 2014 – 2020 may be 12.3%.¹⁷

The currency of payments

Except for the UK's participation in the 2020 EU budget, which will be under the current arrangements and paid in sterling, 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.

Payments after 31 December 2020

Most payments will have reference dates of 30 June and 31 October each year. In advance of the reference dates, the EU will inform the UK of the required payments, which will be made in four equal monthly instalments for payments with a reference date of 30 June or eight equal monthly instalments for payments with a reference date of 31 October.

Areas in the settlement but outside of the EU Budget

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 of the EU Budget and the UK contributes to the fund. UK contributions are treated overseas aid and count towards the UK's [target for overseas aid spending](#) of 0.7% of Gross National Income.

The UK will remain part of the EDF until the close of the 11th EDF fund. The 11th EDF is running 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 Treasury expects the UK to make £2.9 billion of payments to the EDF, with payments ending in 2026.¹⁸

The UK has a share of the EDF's Investment Facility (around £0.4 billion).¹⁹ 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](#).

¹⁶ The UK's share will also be applied in respect of any EU budget corrections or adjustments.

¹⁷ OBR, Economic and fiscal outlook – March 2020, supplementary table 4.11

¹⁸ NAO. Exiting the EU: The financial settlement – follow-up report, November 2018, [para 2.3](#)

¹⁹ op cit, [para E.53](#)

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. These contributions – worth roughly £146 million²⁰ – also count towards the UK's overseas aid target.

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

EU Trust Funds are development tools that pool together 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.

²⁰ *ibid*, [Table E.4](#)

2. What's the cost of the settlement?

As explained below, it's very difficult to estimate the cost of the financial settlement. However, in March 2020, the OBR estimated that the net cost of the settlement is around £33 billion.²¹

Estimate of the settlement and its components

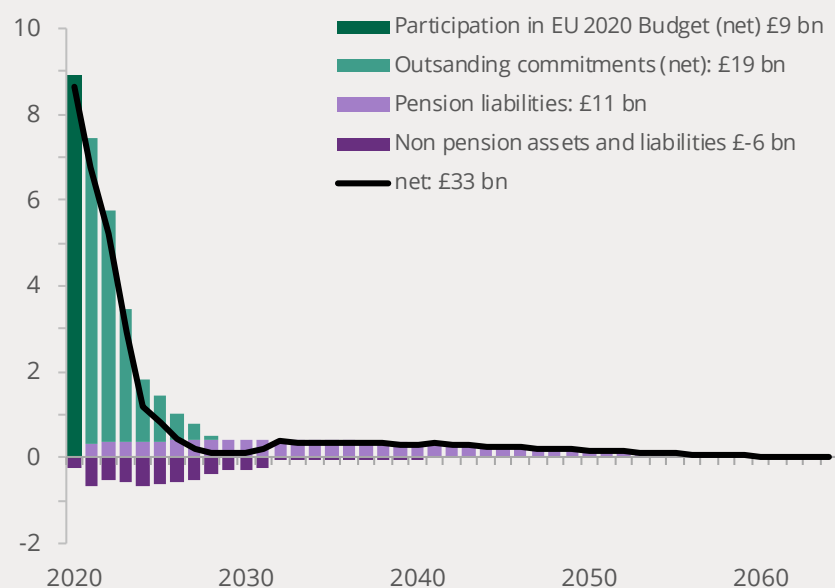
£ billion

	Payment period	£ billion
UK participation in EU annual budgets to 2020 (net)	2020	8.9
Reste à liquider	2021-2028	19.2
Other net liabilities	2020-2064	4.8
Total	2020-2064	32.9

Sources: OBR. Economic and fiscal outlook – March 2020, supplementary tables 4.14 & 4.15

By 2024 it is expected that around 75% of settlement payments will have been made. However, the OBR expect relatively small payments to continue until the mid-2060s. The UK is expected to make an average annual payment of £80 million after 2045 until 2064, these payments will be for pensions liabilities only.

Estimates of payments arising from the financial settlement, £ billion



²¹ OBR. Economic and fiscal outlook – March 2020, [para 3.130](#)

The OBR's latest estimate is broken down, year by year, in [an excel spreadsheet](#) accompanying this briefing paper. It can be found on this briefing's landing page. There is an annotated chart of the data in Appendix 1.

It is difficult to estimate the cost

It is very difficult to put definitive figures to the settlement as it depends on future events, such as UK/EU exchange rate and actual budgets of the EU, as was explained by a Treasury official:

...it is impossible to put a definitive number on the settlement.

When we agreed the financial settlement in December [2017], one of the important principles we secured was that we will only pay for things if they are based on out-turns. So we will meet commitments made during the period of our membership, but in Europe, as in other budgetary systems, not all commitments turn into spending. So we will only pay for things based on out-turn data, and we will not know that out-turn data until well into the future.

So it is impossible to put a definitive number on the settlement...²²

There are numerous uncertainties around each component of the settlement, including: ²³

- the UK's economic performance relative to EU Member States, which will determine the UK's contribution to the EU Budget and consequently the UK's share of future contributions;
- the eventual size of outstanding commitments (RAL) and any decommitments;
- the pound-euro exchange rate;
- the impact of future events on the EU's pension liabilities. The current estimate of EU pension liabilities is based on assumptions about future events such as mortality rates, salary increases and discount rates. If any of these turn out to be different from assumed, then actual payments for EU pensions will differ from the estimates;
- whether the UK continues to receive EU receipts at the same rate until the end of the transition period.

Some items aren't included in the estimated cost

OBR and Treasury estimates of the settlement cost do not include the £2.9 billion that the UK is expected to contribute to the European Development Fund (EDF) after the UK leaves the EU. This cost is excluded as the EDF is not part of EU Treaties and its costs do not arise out of the UK being a Member State. The commitments are part of the UK's legal obligation to spend 0.7% of Gross National Income on

²² European Scrutiny Committee, Oral evidence: EU withdrawal, HC 763, [Q185](#)

²³ NAO. Exiting the EU: The financial settlement, [paras 11-22](#); House of Commons Committee of Public Accounts, Exiting the EU: The financial settlement, HC 973, 27 June 2018; OBR. Economic and fiscal outlook – March 2018, [para B.38](#)

overseas aid and if this budget was not spent through the EDF, the Government would be required to spend it through another route.²⁴

As contingent liabilities aren't expected to result in a future cost, they don't feature in estimates of the settlement's cost.

What if the transition period is extended?

The transition period was conceived as a bridging period while the UK and EU negotiate a new relationship. It will last until the end of December 2020. It is possible for the transition period to be extended for one or two years, but the Government has said it won't seek an extension. It has also legislated to [prohibit itself from doing so](#).

Nevertheless, if the Government changed its mind and the transition period were extended the UK will make financial contributions to the EU. A Joint Committee – made up of representatives from the UK and EU – will determine what the UK's financial contribution will be. The Joint Committee will agree both the amounts – considering the UK's status during the period – and the schedule for making payments.

The terms of the financial settlement will not be affected by the transition period being extended: the UK and EU will continue to settle their financial commitments to one another as agreed in the financial settlement. Payments in an extended transition period will be dealt with separately.

If the transition period were extended the UK:

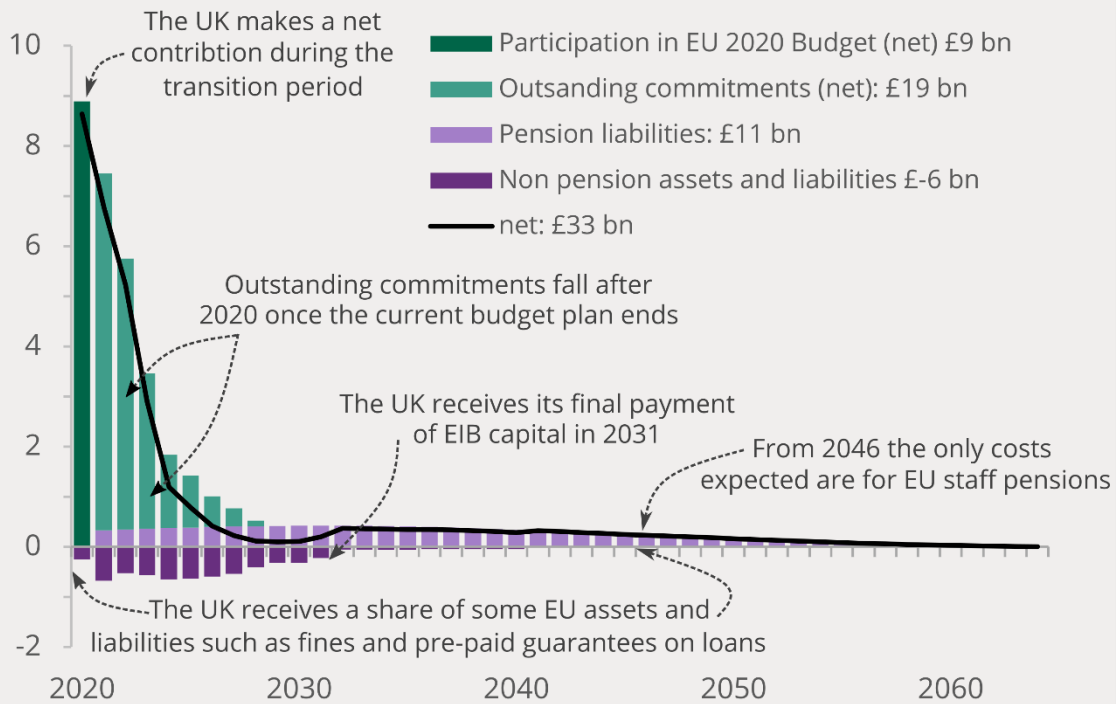
- would be treated as a third country for EU programmes under the next budget plan ([Multiannual Financial Framework 2021 – 2027](#)) – the UK would be able to participate in such programmes but would do so according to the EU's rules for third countries;
- would no longer contribute to the EU Budget as if it were a Member State. More technically the EU's rules on Member States' contributions (the [own resources](#) regulation) would no longer apply to the UK;
- would not be part of the EU's [Common Agricultural Policy](#), but there would be some constraints over the amount of direct support the UK could provide for agriculture

The Library Insight [Brexit next steps: The transition period](#) has further information.

²⁴ House of Commons Committee of Public Accounts, Exiting the EU: The financial settlement, HC 973, 27 June 2018, [para 11](#)

Appendix 1: Annotated OBR estimates

The OBR estimates that around 75% of the net cost of the financial settlement will have been paid by the end of 2024
OBR estimates of the annual path of the financial settlement, £ billions



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