EU budget and the UK's contribution

By Matthew Keep

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Summary

The UK’s contribution to the EU budget

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. **The UK will continue to contribute to the EU budget until it formally departs the EU.**

The UK makes its contributions to the EU budget in the same way as all Member States. However, the UK receives a rebate on its net contribution. The rebate was introduced in the mid-1980s to address the issue of the UK making relatively large net contributions to the EU budget.

The UK’s contribution to the EU budget, after the rebate was applied, was an estimated £12.9 billion in 2015. The UK received total public sector receipts from the EU budget of £4.4 billion, making an estimated net contribution of £8.5 billion in 2015.

The EU’s spending

The EU’s spending is organised around a seven year period, known as the **multiannual financial framework (MFF)**. The MFF sets out the EU’s spending priorities and sets spending limits for the seven years.

The current MFF covers the period 2014-20 and allows the EU to commit to spending of €960 billion (2011 prices). This is a real terms reduction on the previous MFF 2007-13.

During 2014-20, the majority of EU spending will be on ‘smart and inclusive growth’, and ‘sustainable growth: Natural resources’. These categories of spending include EU structural funding and common agricultural policy, respectively.

The MFF isn’t the annual budget itself: rather, it provides a framework through which annual budgets can be negotiated. The European Commission, the Council and European Parliament negotiate annual budgets based on the MFF spending limits.

The EU’s revenues

The EU’s spending is largely funded from the EU’s so-called own resources. Member States make contributions through four kinds of **own resources**:

- GNI-based contributions
- Customs duties
- Sugar levies
- Contributions based on VAT

Roughly 75% of EU revenues come from GNI-based contributions, while VAT-based resources and the sum of custom duties and sugar levies contribute just over 10% each respectively.
1. The UK and the EU budget

Summary

- The UK voted to leave the European Union 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 departs.
- The UK contributes to the EU budget through ‘own resources’ in the same way as other Member States (see section 2.3). However, the UK receives a rebate on its net contribution. In 2015 the UK’s total contribution, after the rebate, was an estimated £12.9 billion.
- The UK receives public sector receipts from the EU for programmes such as structural funding and common agricultural policy. In 2015 the UK received £4.4 billion of public sector receipts.
- The UK’s public sector net contribution in 2015 – the difference between its contribution and receipts received – was an estimated £8.5 billion.
- Some EU receipts bypass the public sector and go directly to private sector and other non-governmental organisations such as Universities. If these receipts are included the UK’s average net contribution to the EU budget was £7.1 billion between 2010 and 2014.
- The rebate was introduced in 1985 to address the issue of the UK making relatively large net contributions to the EU budget. The rebate was worth between £3 billion and £5 billion to the UK between 2009 and 2015.

1.1 The UK’s contribution and Brexit

On 23 June 2016 the UK voted in favour of leaving the EU. However, the UK will remain a member of the EU until its departure has been negotiated. The UK will continue to contribute to the EU budget until it departs the EU.

Following a negotiated departure, the UK may still make contributions to the EU Budget. Any future contributions will depend on the arrangements agreed for the UK’s relationship with the EU after leaving. Members of the European Economic Area (EEA), for example, contribute to the EU Budget, so if the UK joins the EEA, it is likely to pay into the EU Budget. There is more on alternatives to EU membership in section 3 of the Library briefing EU referendum: UK reform proposals, legal impact and alternatives to membership.

1.2 Contributions and receipts

Total and net contribution

In 2015 the UK made an estimated contribution of £12.9 billion to the EU budget, once its rebate was taken into account. The vast majority of the UK’s contribution came from its Gross National Income (GNI)-based contribution. Member States’ contributions to the EU budget are discussed in section 2.3.

The UK received an estimated £4.4 billion of public sector receipts from the EU. Therefore, the UK’s net contribution to the EU budget was £8.5 billion.
The UK’s public sector received the majority of its EU receipts through the common agricultural policy (CAP). The two pillars of the CAP – the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development – provided the UK with receipts of £2.5 billion and £0.6 billion respectively in 2015.

Much of the rest of the UK’s EU receipts came from the European Structural Funds. The Structural Funds – largely made of the European Regional Development Fund and European Social Fund – are used to support economic development.

Table 2 and Table 3 below set out the UK’s overall contributions to, and receipts from, the EU budget from 1973 to 2015. Forecasts from the Office for Budget Responsibility are shown for 2016 to 2020. These forecasts were made in March 2016, before the UK voted to leave the EU. The chart below sets out the real terms figures – as reported in Table 3 – that adjust for inflation.
Non-public sector receipts

Some receipts go directly from the EU to the private sector and other non-governmental organisations such as Universities. These receipts bypass the UK public sector and therefore aren’t included in the figures presented above.

Data on these receipts 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 2014.¹

1.3 The UK’s rebate

The UK contributes to the EU budget in the same way as all Member States (see section 2.3). However, since 1985 the UK’s contributions are subject to an adjustment or rebate.² Before 1985 the UK received negotiated refunds.

The rebate was worth between £3 billion and £5 billion to the UK between 2009 and 2015 (see Table 1). Section 2.3 discusses how the UK’s rebate is calculated, and how it is paid for.

Origins of the rebate

The rebate was introduced to reduce and correct the negative balance between the UK’s contribution to the EU budget and the share of spending, or receipts, it receives from the EU budget.

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 Fontainbleau – Member States agreed a specific rebate mechanism, that remains largely similar to that used today.

In 1985 the UK’s rebate was included in the regulation that determines how Member States contribute to the EU budget (the own resources decision, see section 2.3). This has essentially made the rebate permanent, since unanimity of the Member States is required to change it.³ The UK would have to agree for any changes to be made.

¹ Institute for Fiscal Studies (IFS). The budget of the European Union: a guide, page 41; and, HM Treasury the long-term economic impact of EU membership and the alternative, Table 1.8.
² As a result of the Fontainebleau Agreement in 1984
Table 2. UK net contributions to the EU/EC Budget 1973-2020. Forecasts after 2015.

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Note:
*2015 are estimates, † figures for 2016 - 2020 are forecasts rounded to the nearest £100 million

Sources:
HM Treasury, European Union Finances, latest edition published December 2015, Cm 9167
HM Treasury, European Union Finances, previous editions
OBR, Economic and fiscal outlook - March 2016, supplementary fiscal table 2.26
OBR, Economic and fiscal outlook - March 2016, supplementary economy table 1.9
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<tr>
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<tr>
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<td>12,974</td>
<td>12,974</td>
<td>5,041</td>
<td>7,933</td>
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</tbody>
</table>

Note:
*2015 are estimates, † figures for 2016 - 2020 are forecasts rounded to the nearest £100 million figures may not sum due to rounding

Sources:
HM Treasury, European Union Finances, latest edition published December 2015, Cm 9167
HM Treasury, European Union Finances, previous editions
OBR, Economic and fiscal outlook - March 2016, supplementary fiscal table 2.26
OBR, Economic and fiscal outlook - March 2016, supplementary economy table 1.9
ONS. GDP deflator June 2016
## 2. The EU budget

### Summary

#### Planning spending
- The EU’s spending is organised around a seven year period, known as the multiannual financial framework (MFF). The EU institutions (see Box 1) negotiate the MFF.
- The MFF sets out the EU’s spending priorities and sets spending limits for the seven years.
- The current MFF covers the period 2014-20 and allows the EU to commit to spending of €960 billion (2011 prices). This is a real terms reduction on the previous MFF 2007-13.
- During 2014-20, the majority of EU spending will be on ‘smart and inclusive growth’, and ‘sustainable growth: Natural resources’. These categories of spending include EU structural funding – used to support economic development – and common agricultural policy, respectively.

#### Annual budgets
- The MFF isn’t the annual budget itself: rather, it provides a framework through which annual budgets can be negotiated.
- Annual budgets are negotiated by the European Commission, the Council and European Parliament based on the spending limits set out in the MFF.

#### Revenue
- The EU institutions (see Box 1) negotiate how revenue will be raised at the same time as they negotiate the MFF.
- Member States contribute revenues to the EU budget through four elements of ‘own resources’ that are set out in the provisions of the ‘Own Resources Decision’. The resource categories are:
  - Customs duties, including those on agricultural products
  - Sugar levies
  - Contributions based on VAT
  - GNI-based contributions

Roughly 75% of EU revenues come from GNI-based contributions, while VAT-based resources and the sum of custom duties and sugar levies contribute just over 10% each respectively.

### 2.1 Planning the EU’s spending: the Multiannual Financial Framework (MFF)

The EU’s spending is organised around a seven-year Multiannual Financial Framework (MFF) that sets out what the EU’s spending priorities and sets spending limits.

EU multi-year financial planning was introduced in 1988 in an attempt to put an end to disagreements between the European Parliament and the Council of the European Union which were a persistent feature of annual budget negotiations.

The Lisbon Treaty, which entered into force on 1 December 2009, formalised MFF planning and established the MFF as a Council Regulation covering a period of at least five years.\(^4\) The Treaty change

\(^4\) Article 312 [TFEU](https://eur-lex.europa.eu)
made the MFF a legally binding act: previously the MFF had been part of an interinstitutional agreement.

MFF 2014-20 was negotiated between the EU institutions over two and a half years, from June 2011 to 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, known as Commissioners — one from each Member State. 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.

**Box 2: Commitment and payment appropriations definitions**
The MFF sets limits for both commitment appropriations and payment appropriations.

**Commitment appropriations:** cover the cost of legal obligations, such as contracts or grants, which the EU may sign in a financial year of the MFF. They are the amounts the EU promises in a given year to spend but which may be spent in that same year or over several years.

**Payment appropriations:** cover expenditure that is spent in a given year of the MFF. This is expenditure arising from commitments made in the same year or in previous years.

**MFF 2014-20: spending**
On 2 December 2013 the Council adopted the regulation laying down the MFF 2014-20.

MFF 2014-20 allows the European Union to spend up to €960 billion (1.0% of EU Gross National Income, GNI) in commitment appropriations

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5  Further information on previous MFFs is available from the European Parliament’s Fact Sheet on the Multiannual Financial Framework.

(commitments) and €908 billion (0.95% of EU GNI) in payment appropriations (payments). In real terms these are 3.5% and 3.7% less, respectively, than under the previous MFF.7,8

MFF 2014-20 divides the EU’s spending into five broad categories:9

- **Smart and inclusive growth (47% of total commitments)** largely covers cohesion policy, including structural funds. Around three quarters of the category’s spending is dedicated to these programmes. Other spending areas include research and innovation, infrastructure, education and training and enterprise development.

- **Sustainable growth: natural resources (39%)** is the main budget line for funding the common agricultural policy (CAP) and fisheries policy.

- **Security and citizenship (2%)** includes asylum, migration, public health, consumer protection, culture and youth.

- **Global Europe (6%)** includes support to the EU’s foreign policies and international development.

- **Administration (6%)** includes expenditure on the salaries, allowances and pension costs for staff and members.

![MFF 2014-20 spending categories, € billion, 2011 prices](source: European Commission)

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8 Figures are in 2011 prices
9 A sixth category, compensations, relates to the latest enlargement of the EU, with €27 million for Croatia, who joined the EU in July 2013
### Table 4. Multiannual financial framework 2014-20

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<td>65 528</td>
<td>67 214</td>
<td>69 004</td>
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<td>18 490</td>
<td>19 700</td>
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<td>1b: Economic, social and territorial cohesion</td>
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<td>45 404</td>
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<td>47 038</td>
<td>47 514</td>
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<td>2. Sustainable Growth: Natural Resources</td>
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<td>55 060</td>
<td>54 261</td>
<td>53 448</td>
<td>52 466</td>
<td>51 503</td>
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<td>38 335</td>
<td>37 605</td>
<td>277 831</td>
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<td>2 154</td>
<td>2 232</td>
<td>2 312</td>
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<td>4. Global Europe</td>
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<td>6 955</td>
<td>7 110</td>
<td>7 278</td>
<td>7 425</td>
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**TOTAL COMMITMENT APPROPRIATIONS**

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<td>0.99%</td>
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<td>0.98%</td>
<td>0.97%</td>
<td>0.92%</td>
<td>0.93%</td>
<td>0.93%</td>
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<td>Own Resources Ceiling as a percentage of GNI</td>
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<td>1.23%</td>
<td>1.23%</td>
<td>1.23%</td>
<td>1.23%</td>
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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.\(^{10}\)

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.\(^{11}\) 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.\(^{12}\) 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.\(^{13,14}\)

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.\(^{15}\) 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.\(^{16,17}\)

\(^{10}\) The Council of the European Union COUNCIL REGULATION laying down the multiannual financial framework for the years 2014-2020, 25 November 2013

\(^{11}\) COM(2011) 398 final, 29 June 2011

\(^{12}\) COM(2012) 388 final, 6 July 2012

\(^{13}\) European Council. 7/8 February 2013. Conclusions (Multiannual Financial Framework), 8 February 2013

\(^{14}\) A previous meeting, held on 22- 23 November 2012, failed to reach agreement.

\(^{15}\) Council of the European Union website, Summary of the European Council agreement, accessed 4 Mar 2013

\(^{16}\) European Commission Press Release, Political Agreement on EU’s Future Budget 2014 –2020, 27 June 2013

\(^{17}\) 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\(^{18}\) 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 section 1.3).\(^{19}\)

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 Commission must present the review before the end of 2016.

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.\(^{20}\)

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.\(^{21}\)

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).

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\(^{18}\) 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–


\(^{20}\) Further information is available in the European Parliament Research Service’s briefings: Mid-term review/revision of the MFF Key issues at the outset of the debate (January 2016) & Mid-term review/revision of the 2014-2020 Multiannual Financial Framework (July 2016)

2.2 The annual budget

The MFF provides the long term basis for the EU budget. An annual process involving the European Commission, the Council and European Parliament sets the annual budget based on the limits laid out in the MFF.

Appendix 1 describes the process for the 2017, 2016, 2015 and 2014 budgets.

The annual budget process

Commission’s draft budget

The annual budget cycle begins with the Commission proposing a draft budget based on MFF spending limits. 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.\(^\text{22}\)

The Commission must submit its draft budget to the Council and European Parliament by 1 September of the preceding year. In practice, the Commission endeavours 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 by 1 October of the preceding year. 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.\(^\text{23}\) 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,

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\(^{22}\) The European Commission has produced technical adjustments for 2014 and 2015. Both are available from the European Commission’s website.

\(^{23}\) Further details of the Conciliation process are available in Codecision and Conciliation from the European Parliament.
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.
2.3 The EU’s revenue: ‘own resources’

Nearly all of the EU’s revenues come from Member States’ ‘own resource’ contributions. The EU is not allowed to borrow, so its revenues must cover its spending.\(^{24}\)

Member States contribute revenues to the EU budget through four elements of ‘own resources’. The resource categories are:

- Customs duties, including those on agricultural products
- Sugar levies
- Contributions based on VAT
- GNI-based contributions

Roughly 75% of EU revenues come from GNI-based contributions, while VAT-based resources and the sum of custom duties and sugar levies contribute just over 10% each respectively.

% of EU revenues from each source

![Graph showing percentage of EU revenues from each source](source: European Commission)

Details of the resources and how these are raised are laid out in the provisions of the Own Resources Decision (ORD).\(^{25}\) The ORD is negotiated alongside the MFF, but each is laid out in separate regulations.

A new ORD was adopted by the Council on 26 May 2014.\(^{26}\) This will apply retrospectively as of 1 January 2014 once it has been agreed by each Member State. The European Union (Finance) Act 2015 provides the UK Parliament’s approval.\(^{27}\)

Since 1985 the UK has received an abatement (rebate) on its net contributions. Section 1.2 provides further detail.

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\(^{24}\) As stipulated in Article 311 Treaty on the Functioning of the European Union.


\(^{26}\) Council of the European Union, Council decision on the system of own resources of the European Union 2011/0183 (CNS), 12 February 2014.

\(^{27}\) The Library produced a briefing for second reading of the European Union (Finance) Bill 2015-16.
EU revenue: sources

Below are details of how revenues are raised from the four main sources:

- **Customs duties, including those on agricultural products (12% of EU revenues).** These are paid on a range of commodities imported from non-Member countries. Following the agreement on agriculture during the Uruguay GATT round of world trade talks, most duties are now fixed. However, for some key commodities, they continue to vary in line with changes in world prices.

- **Sugar levies (<1%).** These are charged on the production of sugar in order to recover part of the cost of subsidising the export of surplus EU sugar onto the world market.

- **Contributions based on VAT (13%).** Essentially, the VAT base is the amount yielded by applying a notional rate of 1% to an identical range of goods and services in each Member State. Each Member State’s VAT base is currently subject to a cap of 50% of its GNI (Gross National Income). A call-up rate (set at a maximum of 0.3%) is then applied to the capped VAT base.

- **GNI-based contributions (74%).** The amount due is calculated by taking the same proportion of each Member State’s Gross National Income (GNI). Because the Community is not allowed to borrow, revenue must equal expenditure. The GNI resource is the budget-balancing item; it covers the difference between total expenditure in the budget and the revenue from the other three resources, subject to the overall own resources ceiling.

The first two resources are known as the ‘traditional own resources’. These are considered as coming naturally from the functioning of the customs union and internal market. The VAT and GNI-based elements are sometimes referred to as the ‘third’ and ‘fourth’ own resources respectively.

Member States currently retain 25% of the customs and sugar duties as collection costs, although this will fall to 20% once the new ORD is ratified.

The EU also receives a small proportion of its revenues outside of own resources. These other revenues, which contributed around 1% of EU revenues in 2014, 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.

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28 This information is taken from HM Treasury, *European Finances 2014: statement on the 2013 EU Budget and measures to counter fraud and financial mismanagement*, November 2013, Cm 8974, see Glossary p30. Note the information on the VAT element has been shortened.

29 Percentage of the proceeds of nationally collected VAT to go to the EU budget. Some Member States benefits from a “reduced call rate”

30 A [history of the own-resources system](https://www.europarl.europa.eu) is available from the European Parliament.
EU revenue: the 2014 Own Resources Decision

On 26 May 2014, the Council adopted a legislative package, including a new ORD, introducing some changes to the own resources system from 2014.

The new ORD will apply retroactively from 1 January 2014 once it has been approved by all Member States. Until this time the ORD agreed in June 2007 applies. Most Member States require the ORD to be approved by their national parliament. The European Union (Finance) Act 2015 provides the UK Parliament’s approval.

The main changes to the ORD are:

- Collection costs for traditional own resources will be lowered to 20%.
- Denmark (€130 million), the Netherlands (€695 million), and Sweden (€185 million) will benefit from 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.
- Germany, the Netherlands and Sweden are to benefit from reduced call rates for the own resource based on value added tax (VAT) for the period 2014-20 only. Over the period their rate of call shall be 0.15% compared to 0.3% for all other Member States.

EU’s revenue: review of the own resources system

As part of the agreement reached on the MFF 2014-20, the European Parliament, the European Commission and the Council have set up a group to review the own resources system.

The group produced its first assessment in December 2014. This looked at key features of the system and recent attempts at reform. 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.”

The group will present its final analysis in 2016, which national parliaments will assess at an inter-parliamentary conference. The conference’s outcomes will determine whether the Commission will propose changes to the own resources system.

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31 2007/436/EC, Euratom: Council Decision of 7 June 2007 on the system of the European Communities’ own resources
32 The Library produced a briefing for second reading of the European Union (Finance) Bill 2015-16.
33 European Commission, Memo Q&A: The EU’s high-level group on own resources, 25 February 2014
34 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.
35 European Parliament Research Service. ‘Monti’ Group’s first assessment of EU own resources, February 2015
Calculating the UK’s rebate
The rebate is calculated by taking the difference between the UK’s percentage share of the VAT contributions and UK’s percentage share of expenditure, multiplying this figure by 0.66 and then multiplying it by total expenditure. This calculation is subject to the following points and exclusions:

- the rebate applies only in respect of allocated expenditure within the Union. Expenditure outside the Union (mainly EU overseas aid, which is relatively small) is excluded;
- non-agricultural expenditure in the Member States that have acceded to the EU after April 2004 is excluded;
- the UK’s contribution is calculated as if the budget were entirely financed by VAT;
- windfall gains in the rebate calculation caused by the introduction of VAT capping, and the GNI resource, and gains made from increased collection costs are excluded;
- the rebate is deducted from the UK’s VAT contribution a year in arrears.

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 ORD agreed on 26 May 2014 made no substantive changes to the rebate calculation, but deleted some time-limited transitional provisions from the regulations which expired at the end of 2013.36

Cost of the rebate
The cost of the rebate is borne by all other Member States. The cost of the rebate is based on the GNI resource, but Germany, the Netherlands, Austria and Sweden only pay one quarter of their amount due.

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36 One phased in the exclusion of non-agricultural expenditure in the Member States that have acceded to the EU after April 2004. The UK’s contribution to this was capped at €10.5 billion. The other time-limited provision made an adjustment for non-abatable pre-accession expenditure.
3. Member State contributions to the EU budget

On a per head basis the UK made the third largest net contribution to the EU budget in 2015. The UK’s net contribution was €14.0 billion, or €215 per capita in 2015.

Table 5 below shows EU budget contributions and expenditure by Member State over the 2013-15 period. The table includes the total net contribution by Member State and the same figure on a per head basis for 2015. These figures are based on data published by the European Commission and show the budgetary balance excluding the relatively small amounts of non-EU related funding. An example of non-EU related funding is EU overseas development aid.

The eagle eyed will notice that the Commission’s figures do not tally with those of the Treasury reported in section 1 of this note. In addition to the figures being in different currencies, there are differences in the way the figures are prepared, the main ones being that:

- the Commission includes receipts from the EU to the private sector, which are not included by the Treasury;
- the Treasury look at cash flow in the year, whilst the Commission match transactions to a particular EU Budget

The Treasury produces data for the UK only. The European Commission figures are the best available for comparing Member States.

The Commission’s figures include administration expenditure which can have a significant effect on the contributions of some Member States, such as Belgium and Luxembourg, where in 2015 the EU spent €4,522 million and €1,381 million respectively on administration.

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37 Further reasons include: the Treasury not including figures from amending budgets adopted late; the two agencies differing on other factor such as exchange rates.

38 HM Treasury. European Union Finances 2015, December 2015, Cm 9167, Annex B
Table 5. EU Budgetary Balances by Member State 2013-15

€ million, includes administrative expenditure

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Total: 126,349

Notes:
- Negative net contribution indicates Member State is a net recipient
- Figures include administrative expenditure (significant effect on expenditure in Belgium and Luxembourg)
- Sources: European Commission, interactive graph on EU expenditure and revenue, available at:
  Eurostat (population data) downloaded 11 August 2016
Appendix: annual budget negotiations

The 2017 budget

**European Commission’s draft**
The Commission presented the 2017 draft budget on 30 June 2016.\(^{39}\) 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.\(^{40}\)

**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.\(^{41}\)

**Parliament’s position**
The Parliament adopted its position on 26 October 2016, calling for higher commitments (€162.4 billion) and payments (€138.0 billion) than in the Commission’s draft.\(^{42,43}\)

**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.

If no deal is found by the end of the conciliation period on 17 November the Commission has to present a new draft budget for 2017.

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\(^{39}\) European Commission, **Draft General Budget 2017**, June 2016


\(^{43}\) Figures include appropriations for special instruments
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.\(^{44}\) 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.\(^{45}\)

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.

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\(^{44}\) European Commission, Draft General Budget 2016, May 2015

\(^{45}\) 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; 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. 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.

In October 2014, the European Parliament provided its position, 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 0.6% rise in payments in cash terms compared with the 2014 budget.

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

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48 Council news release, Council adopts position on 2015 EU budget, 2 September 2014
commitments and a 0.7% rise in payments compared with budget 2014.\textsuperscript{50}

\textbf{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.\textsuperscript{51}


\textsuperscript{51} For further information see: European Parliament Research Service, \textit{The bumpy road to the 2015 EU budget}, 11 December 2014.
The 2014 budget

The 2014 annual budget was the first executed under the 2014-20 MFF. 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; 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.

In October 2013, the European Parliament provided its position, 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.

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52 Further details are available in EC. Financial Year 2014. Report on budgetary and financial management
53 EC news release, Commission tables proposal in tune with today’s Europe, 26 June 2013, and EC website
54 Council news release, Council adopts position on 2014 EU budget, 2 September 2013
56 2014/67/EU, Euratom: Definitive adoption of the European Union’s general budget for the financial year 2014
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