



Conservative Group for Europe

Factsheet 4: Britain and the European Union Budget

Summary

- Britain's gross contribution to the EU Budget was £17.8 billion in 2015 but after allowing for the British rebate this figure fell to £12.9 billion. The rebate is applied immediately so the gross amount is never actually paid across to Brussels. The EU also disburses £4.4 billion to the UK public sector for things like support to British farmers and regional support. This reduces the net contribution to £8.5 billion. If allowance is then made for payments, such as research grants, of £1.4 billion paid by the EU to non-government entities in Britain, our net contribution comes out at £7.1 billion.
- Britain is the third largest contributor to the EU Budget after Germany and France. On a per person basis, Britain is the eighth largest contributor. Britain pays 110 euros per head each year compared with 378 from the Netherlands. By way of comparison, the CBI calculates a net economic benefit from our membership of £1,225 per head per year.
- The Leave Campaign claims we could spend an additional £350 million a week on the NHS if it weren't for our EU contribution; this is wrong. Their calculation is based on our gross, not rebated or net, contribution. It also assumes that support for UK farmers would be abolished, that funding for regional aid and research would not be replaced and that the proportion of our 0.7% of GNI commitment to international development paid through the EU's aid and humanitarian programmes, would be jettisoned (despite the recently enacted legal requirement to meet the target).
- The EU Budget is equivalent to 1% of the EU's GNI. The EU is not allowed to run a deficit.

How the EU Budget works

The European Union's budgetary framework is organised around a seven year planning period (the Multiannual Financial Framework - MFF). This creates spending limits for the period since the EU, unlike its member states, cannot borrow to fund expenditure. The current MFF covers 2014-20 and was based on a real terms reduction in spending of 3.5% compared with the prior period - a victory for an alliance between David Cameron and Angela Merkel.

The EU Budget is equivalent to 1% of EU GDP - compared with an average of over 40% of GDP consumed by national government expenditures. Countries contribute to the EU Budget through earmarked revenues known as 'own resources'. These have four elements: Gross National Income (GNI) based contributions (74%); VAT-based contributions (13%); sugar levies (1%) and customs duties (12%). Member states retain 25% of customs and sugar duties to fund collection costs.

The EU's spending divides in to five categories: '**Smart and inclusive growth**' (47% of total) which covers structural and regional funds together with research and innovation, infrastructure, education and training and enterprise development; '**Sustainable growth - natural resources**' (39%) which funds the Common Agricultural and Fisheries Policies and rural development; '**Global Europe**' (6%) which fund's the EU's foreign and development policies; '**Security and Citizenship**' (2%) includes migration, asylum, public health, consumer protection, culture and youth; and **Administration** (6%). Changes to the UK rebate require unanimous agreement.

The EU Budget is equivalent to only 1% of the EU member states' combined GNIs. By comparison, national government expenditures generally account for over 40% of national GNI.

Britain's contribution to the EU Budget

When Britain joined the EU its net contribution to the EEC Budget was very high because of the dominance of agricultural spending from which Britain received little benefit. In addition, despite being one of the poorer member states at the time, Britain made a relatively large contribution. Temporary correction mechanisms were agreed in 1975 and 1979. Margaret Thatcher negotiated a long-term rebate mechanism at the 1984 Fontainebleau Summit. Since this time, Britain's affluence relative to the member state average has increased - we are now 27% per capita above average. During the period, affluent countries from Scandinavia and poorer countries from Central and Eastern Europe have joined; and the dominance of farm spending has been reduced.

Britain's gross contribution to the EU Budget was £17.8 billion in 2015 but after the UK rebate, this fell to £12.9 billion. Britain then received a further £4.4 billion in payments made through UK government channels and £1.4 billion to universities and companies, reducing the total to £7.1 billion (Sir Andrew Dilnot, Chair of the UK National Statistical Authority). In 2014 Britain's net contribution on a per capita basis amounted to 110 euros - the eighth highest. To put this into context, according to the CBI, the net benefit arising from British membership of the EU is in the region of 4% to 5% of the wealth we create annually, or about **£1,225 per person per year**.

The UK's annual per capita net contribution of 110 euros compares with 378 euros from the Netherlands, 270 from Sweden, 219 from Germany, 177 from Denmark, 154 from Finland, 152 from Austria, 114 from France. Although it is not a member, Norway is the tenth largest contributor to the EU Budget because it has to pay for continued access to the Single Market.

Our net EU Budget contribution is equivalent to 1p for every £ of tax collected in Britain. By way of comparison, interest on UK government debt is about five times the cost of our net EU contribution.

During 2015/16, the EU contributed £2.3 billion to agricultural support in Britain, a further £600 million to rural development, £850 million to regional development and £1.4 billion to research and other activities carried out by British universities and companies. David Cameron has commented: 'We do pay in more than we get out. But we benefit from the single market, making our economy bigger, creating jobs and more tax revenue. We get back much more overall than we put in.' He also defended making limited transfers to the former Communist countries of Central and Eastern Europe, helping to bring stability and to grow their middle class who will, in turn be able buy more British goods and services.

What the Quitters Say

The Leave Campaign have argued - in full knowledge that their claim is misleading - that if Britain left the EU then our budget contribution could be diverted to fund the NHS. They suggest that Britain makes payments of £350 million a week to the EU. This is based on our gross contribution. However the rebate (£4.9 billion) is never paid across to Brussels; it is deducted before payments are made. In addition, as noted above, the EU expends a further £5.8 billion to beneficiaries in the UK. Thus, unless Leave believe that all this spending on research, universities, farmers and disadvantaged regions should be abolished, the amount saved would be £7.1 billion not £17.8 billion. Moreover, a proportion of the 0.7% of Gross National Income which Britain is committed to devote to development and humanitarian objectives is paid through the EU and so paying it through our national budget instead would not realise savings for reallocation to other budgets. Moreover, the loss in reduced tax revenue from fewer jobs, less investment, lower trade flows and higher interest rates would mean that the overall revenues available for public expenditure would be considerably reduced, probably resulting in lower spending on the NHS.



info@conservativegrouforeurope.org.uk

www.conservativegrouforeurope.org.uk

