
WALES AND THE EU REFERENDUM:

Estimating Wales' Net Contribution to the European Union

May 2016



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About us

The **Wales Governance Centre** is a research centre that forms part of Cardiff University's School of Law and Politics undertaking innovative research into all aspects of the law, politics, government and political economy of Wales, as well the wider UK and European contexts of territorial governance. A key objective of the Centre is to facilitate and encourage informed public debate of key developments in Welsh governance not only through its research, but also through events and postgraduate teaching.

The **UK in a Changing Europe** initiative promotes independent and impartial research into the relationship between the UK and the EU. It is funded by the Economic and Social Research Council and explores the key aspects of the UK-EU relationship including the impact of different policies and the implications of any changing relationship with the EU on different parts of the UK.

The **Wales and the EU Hub** is a newly established project created to provide and disseminate non-partisan and independent research on Wales and the EU. This project is part of the Wales Governance Centre and is supported by the Centre for European Law and Governance at Cardiff University's School of Law and Politics.

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Introduction

As a member of the European Union (EU), the UK contributes directly to the EU budget, and also receives funding from various EU programmes.

The cost or benefit of EU membership to the UK's public finances is a key topic of debate ahead of the referendum on 23 June 2016. Differing arguments over the magnitude of Britain's net contribution to the European Union have been central to the arguments put forward by both designated campaign groups for the upcoming referendum. The accuracy of some assertions relating to the UK's net contribution has been repeatedly challenged, particularly with regards to the treatment of the UK budget rebate. Many have also acknowledged that the picture is different for the individual countries and regions of the UK compared with the UK as a whole, especially given the regional dimension of a significant portion of EU funding.

This briefing aims to compare Wales' receipts from the EU against an estimate of Wales' contribution to the EU budget. The analysis indicates that Wales' position in terms of its net contribution to the EU differs substantially from that of the rest of the UK.

For a more detailed and wider discussion of the EU budget see the forthcoming reports on 'EU Budget' and 'Cohesion Policy' produced by the Wales and EU Hub under the 'UK in a Changing Europe' project.

Executive summary:

- In 2014, European Union funding for Wales from the Common Agricultural Policy and European Structural Funds totalled £658 million. Wales receives other funding from the EU that goes directly to Welsh beneficiaries and is less straightforward to quantify.
- Wales' estimated contribution to the EU budget, after accounting for a share of the UK's rebate, was around £414 million in the same year.
- This means that the estimated net benefit from the EU for Wales in 2014 was around £245 million. This was equal to around 0.4% of Welsh GDP.
- The UK as a whole made a net contribution of £9.8 billion in the same year.
- Wales' net benefit from the EU equated to around £79 per head in 2014. This compares with a net contribution of £151 per head for the UK as a whole.
- This analysis suggests Wales' position differs significantly from the UK as a whole. Any measure of the net fiscal contribution of the UK and Wales should also be considered alongside the wider economic benefits and costs associated with EU membership.

Estimating Wales' Net Contribution to the European Union

What the UK contributes and receives from the EU

Each of the 28 EU member states contributes financial resources to fund the EU budget. These contributions are, roughly, determined by the size of the member state's economy relative to those of other member states.

Member state contributions to the EU budget fall under three main categories:

- Traditional Own Resources – 75% of customs duties on goods brought into a member state from outside the European Customs Union and sugar levies.
- Own Resource from Value Added Tax (VAT) – A share of the harmonised VAT base of each EU country.
- Own resource base on Gross National Income (GNI) – A standard percentage is levied on the GNI of each country.

The UK contribution is then influenced by the UK rebate, which involves a downward adjustment to the UK's annual contribution, financed by increased contributions from other member states.

In addition, the UK receives funding from various EU programmes. Most of this funding is channelled through the UK public sector accounts, although some funding programmes are centrally managed by the EU and are made directly to the end beneficiary.

The difference between the UK's contributions and the funds it receives in return can be seen as a measure of the UK's net contribution to the EU budget.

HM Treasury compiles regular reports on the European Union finances, and publishes data detailing the notional gross contribution, the rebate, public sector receipts and a measure of the UK's net contribution.¹ The latest available annual outturn data from 2010 to 2014 is provided in table 1.

TABLE 1: UK contributions to the EU budget					
	£ million				
	2010	2011	2012	2013	2014
Gross contributions (before rebate)	15,196	15,356	15,745	18,135	18,778
Less UK rebate	-3,047	-3,143	-3,110	-3,674	-4,416
Less Public Sector Receipts	-4,768	-4,132	-4,169	-3,996	-4,576
Net contribution to EU Budget	7,381	8,081	8,466	10,465	9,786

Source: HM Treasury, *European Union Finances 2015*

In 2014, the UK's contribution after taking into account the immediately applied rebate was £14.4 billion. Further breakdown of this contribution can be found in the annex. Recorded public sector receipts from the EU to the UK (i.e. EU programme funding managed and implemented by UK public authorities) were around £4.6 billion, meaning that the UK's net contribution in 2014 was an estimated £9.8 billion.

However, this figure excludes payments from centrally managed EU programmes that go directly to end beneficiaries such as universities. According to Treasury data, these direct payments were worth around £1.4 billion to the UK in 2013.

¹ HM Treasury, 2015. *European Union Finances 2015*. Cm 9167, December 2015.

Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/483344/EU_finances_2015_final_web_09122015.pdf

There are other measures of the UK's net contribution. For example, a 2014 European Commission Financial Report stated the UK net contribution was under €5 billion in 2013.² The lower figure results from including payments made directly to UK beneficiaries, and also discounting some of the UK's contributions. The Treasury figures are also based on cash flow within the calendar year, whereas the European Commission figures match transactions to particular EU Budgets.

Since the Treasury figures are most frequently cited in public debate, this briefing attempts to calculate comparable and consistent figures for Wales.

Wales' contribution to the EU

As contributions to the EU are made on behalf of the UK as whole, Wales does not make a direct contribution to the EU budget. However, there are various methodologies that can be applied to estimate Wales' gross contribution, and to hence calculate Wales' net contribution to the EU after taking into account receipts from European budget programmes.

The Scottish Government has developed a methodology for estimating Scotland's EU contribution which feeds into the Government Expenditure and Revenue Scotland (GERS) reports and the Scottish National Accounts Project (SNAP). This methodology disaggregates separately the three components of the UK's contribution to the EU discussed above and apportions these to Scotland individually.³ A similar methodology is used in a paper by the Centre Maurits Coppieters.⁴ In contrast to other approaches, this method has the advantage of using the most suitable disaggregation assumption for each separate component of the UK's contributions to the EU budget.

This briefing applies a similar methodology to Wales. First, Wales' share of the UK GNI-based contribution is calculated by taking the ratio of Wales' GVA to UK GVA, and applying this to the UK's GNI-based contribution to the EU. Second, Wales' share of the VAT-based contribution is estimated based on Wales' share of UK VAT. Third, Wales' share of the UK's Traditional Own Resources payments is based on Wales' share of UK imports from outside of the EU. Finally, Wales' share of the UK's rebate is estimated by taking a per capita share of the total rebate. Further discussion on the methodology and disaggregated data is available in the annex.

Table 2 presents an estimate of Wales' contribution to the EU budget. Wales' estimated contribution to the EU budget in 2014, after apportioning a share of the UK's rebate, was £414 million.

	£ million				
	2010	2011	2012	2013	2014
Gross contributions before rebate	511	521	533	614	625
Contributions after rebate	363	369	383	437	414

Wales' public sector receipts from the EU

The main sources of EU receipts for Wales are from European Structural Funds and the Common Agricultural Policy.

Data on public sector funding from the EU is taken from the Welsh Government's annual Consolidated Accounts.⁵ These figures are converted from financial years to calendar years, in order to be consistent with the UK level data presented above.

2 European Commission, 2014. EU budget 2014 Financial report.

Available at: http://ec.europa.eu/budget/financialreport/2014/foreword/index_en.html

3 Scottish Government, 2013. Government Expenditure and Revenue Scotland 2011-12. pp.54.

Available at: <http://www.gov.scot/Resource/0041/00415875.pdf>

4 Taberner, J. G. and Pindado, F. P., 2014. The Fiscal Balance of Stateless Nations with the European Union, CMC papers, 2014, 1.

Available at: http://www.ideasforeurope.eu/wp-content/uploads/LOW_CMC_3659_paper_the-fiscal-balance_ENG-COR-140514.pdf

5 Welsh Government, 2015. Welsh Government Consolidated Accounts 2014-15.

Available at: <http://www.assembly.wales/laid%20documents/agr-ld10344/agr-ld10344-e.pdf>

Table 3 presents the EU income reported by the Welsh Government from 2010 to 2014.

TABLE 3: Public sector receipts from EU to Wales, 2010 to 2014					
	£ million				
	2010	2011	2012	2013	2014
Common Agricultural Policy	312	300	295	299	260
European Structural Funds	209	209	261	355	396
Other	0	0	4	3	2
Total	522	508	560	658	658

Source: Welsh Government Consolidated Accounts.

Note: Excludes direct payments from the EU to the private sector in Wales.

In 2014, agricultural funding to Wales equated to around £260 million, while European Structural Funds to Wales totalled £396 million. A further £2 million from other programmes means **total public sector funding to Wales from the EU of £658 million**.

This provides a cash flow estimate of public sector receipts from the EU to Wales each year.

As with the UK-level data presented above, not included in this analysis are funds distributed directly from the EU to beneficiaries in Wales. For example, nearly £12 million of research and innovation related funding could be identified as going to Welsh universities in 2014 under the 7th Framework Programme and Horizon 2020. Due to the absence of consistent data, it is not possible to precisely determine the total funding received by Welsh beneficiaries under EU centrally managed programmes.

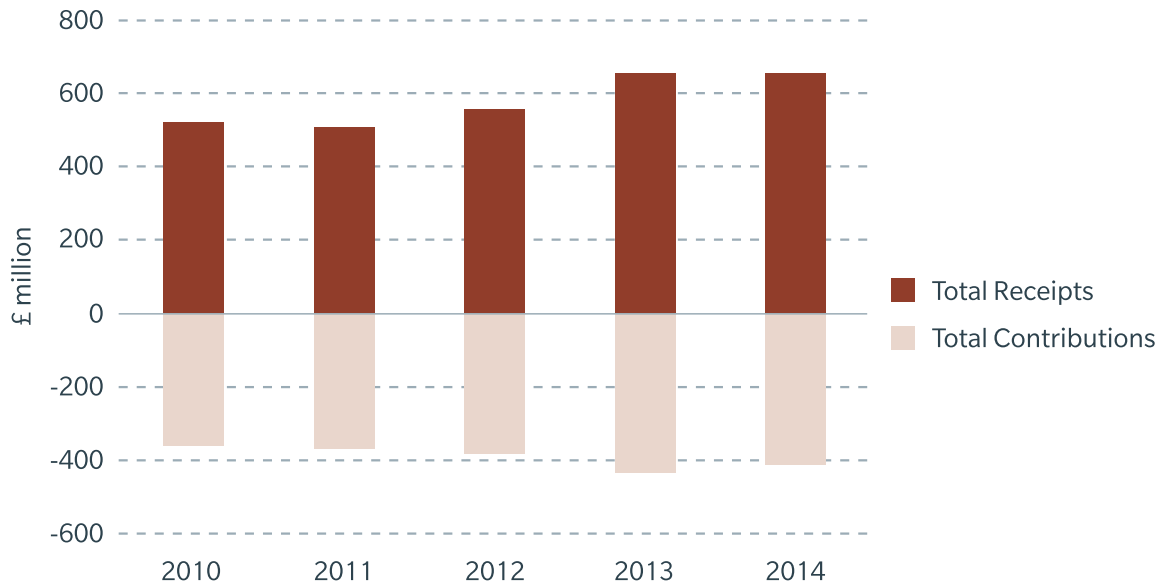
Wales' net benefit from the EU

Total estimated public sector receipts and total contributions are illustrated in figure 1, and Wales' net benefit from the EU from 2010 to 2014 is provided in table 4. After accounting for public sector receipts from the EU, **Wales' estimated net benefit from the EU amounted to £245 million in 2014**.

TABLE 4: Wales' estimated net fiscal benefit from the EU					
	£ million				
	2010	2011	2012	2013	2014
Net benefit (Total receipts less total contributions)	159	140	177	220	245

This is in stark contrast to the position of the UK outlined earlier, which on the whole made a net contribution of £9.8 billion in the same year. Moreover, although the UK's net contribution to the EU has increased since 2010, Wales' net benefit also increased, due to higher levels of public sector receipts. 2013 and 2014 were years in which the UK's gross contribution to the EU was historically high.

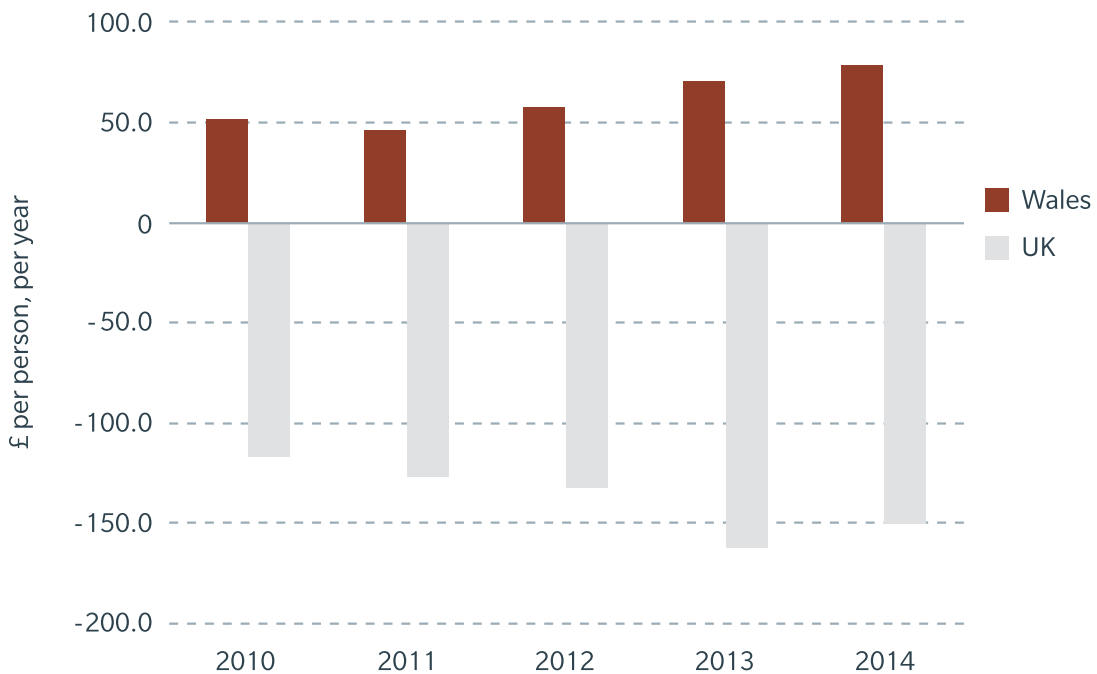
FIGURE 1: Wales’ total public sector receipts from the EU and total estimated contributions to the EU



Relative to the size of the Welsh economy, and excluding considerations of wider economic benefits and costs, this public sector benefit from the EU is relatively small (as is the case for the UK’s net contribution as a whole). The estimated net benefit from the EU of £245 million in 2014 equates to around 0.4% of Wales’ estimated GDP. By way of comparison, the total Welsh Government budget in 2013-14 was £15.2 billion.

Figure 2 shows the net benefit per head from the EU for Wales and for the UK as whole. On a per person basis, Wales’ estimated net benefit was around £79 per head in 2014. For the UK as a whole, this figure was a net contribution of £151 per head in 2014.

FIGURE 2: Net benefit/contribution per person for Wales and UK, 2010 to 2014



As at the UK level, there is volatility in Wales’ net contribution to the EU. This volatility results from a number of factors, particularly fluctuations in the UK’s different contributions and the rebate. There are also significant fluctuations in the UK’s public sector receipts. A further source of volatility is the Euro-Sterling exchange rate.

Conclusion

The analysis presented above shows the potential for asymmetrical impacts across the UK of any potential vote to leave the EU. There is a stark variation in the relative positions of Wales and the rest of the UK with respect to receipts from and contributions to the European budget. Primarily due to Structural Funds and the Common Agricultural Policy, Wales' position contrasts very significantly to that of Scotland or England in being a net beneficiary of funds.

It has been argued that monies saved from EU contributions could be spent on replacing funding from EU programmes to Wales. However, there are a number of reasons why this might not be the case if the UK were to leave the EU. Any fiscal space created in withdrawing from the EU could be used instead for other UK government priorities such as tax cuts or debt reduction. Other models of future relationships with the EU, such the current agreements with Norway and Switzerland, would also require a continued financial contribution to the EU without the possibility for continuing receipt of funds under regional policy or agricultural policy. Finally, this analysis has not focused on any unknown effects of the referendum outcome on economic growth and general government revenue.

In the forthcoming referendum debate, the distinct position of Wales with respect to its relationship with the European Union should be more widely recognised and debated.

Beyond the wider economic benefits and costs of EU membership, Wales' position as a net beneficiary from the EU means the outcome of the vote may have a marked effect on the future economy and public finances of Wales.

Annex: Methodology

Estimates of Wales' net contribution

Member state contributions to the EU budget fall under three main categories:

- Traditional Own Resources – 75% of customs duties on goods brought into a member state from outside the European Customs Union and sugar levies.
- Own Resource from Value Added Tax (VAT) – A share of the harmonised VAT base of each EU country.
- Own resource base on Gross National Income (GNI) – A standard percentage is levied on the GNI of each country.

Table A.1 provides a breakdown of the UK's net contribution to the EU budget for the years 2010 to 2014. These data are taken from HM Treasury reports.⁶

TABLE A.1: Breakdown of the UK's net contribution to the EU budget					
	£ million				
	2010	2011	2012	2013	2014
Sugar Levies	8	8	10	9	2
Customs Duties	2,146	2,216	2,192	2,171	2,200
VAT-based contributions	2,172	2,174	2,279	2,344	2,388
GNI-based contributions	10,689	10,922	11,362	13,497	12,557
VAT & GNI adjustments	181	36	-98	114	1,631
UK rebate	-3,047	-3,143	-3,110	-3,674	-4,416
Contributions (net of rebate)	12,149	12,213	12,635	14,461	14,362
Total Public Sector Receipts	4,768	4,132	4,169	3,996	4,576
Net Contributions to EU Budget	7,381	8,081	8,466	10,465	9,786

⁶ HM Treasury, 2015. European Union Finances 2015. Cm 9167, December 2015.
Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/483344/EU_finances_2015_final_web_09122015.pdf

This briefing uses various apportionment methodologies to calculate Wales' contribution to the EU budget. These apportionment methods are as follows:

- The UK's **GNI-based contribution** is apportioned to Wales according to its share of UK Gross Value Added (GVA). GVA figures are taken from the ONS' Regional Accounts.⁷
- The UK's **VAT-based contribution** is apportioned to Wales according to its share of UK VAT receipts. Wales' share of UK VAT is taken from HMRC's disaggregated taxes data.⁸
- The **VAT & GNI adjustments** are apportioned to Wales according to its apportioned share of VAT and GNI-based contributions.
- The UK's **Sugar Levies contribution** is apportioned to Wales according to its share of UK VAT receipts.
- The UK's **Customs Duties contribution** is apportioned to Wales according to its share of non-EU imports into the UK. Data on international imports is taken from the ONS.⁹
- The UK's **rebate** is apportioned to Wales according to its population share of the UK. Population data is taken from the ONS.¹⁰

The sum of the various contributions makes up Wales' estimated contribution to the EU budget.

An alternative and appropriate methodology for apportioning a share of the UK rebate to Wales would be to use Wales' pro rata share of the gross contribution before the rebate (3.3% in 2014). This would reduce Wales' share of the rebate from £211 million to £147 million in 2014, meaning Wales' net benefit from the EU in that year would have been £180 million (instead of £245 million as shown in table A.2 below). However, for the purposes of comparison and consistency, this briefing retains the Scottish Government apportionment methodology which allocates Wales a per capita share of the UK rebate.

Data on public sector receipts from the EU are collected from the annual Welsh Government Consolidated Accounts.¹¹ Each report details Welsh Government income and expenditure for the relevant financial year. These figures are converted into calendar years in order to be consistent with the detailed Treasury data on the UK's EU contributions.

The figures used in this report reflect the Welsh Government's consolidated position. This means the figures incorporate Local Health Boards in Wales, Finance Wales PLC, Career Choices Dewis Gyrfa Ltd, WGC Holdco Ltd, and Regeneration Fund for Wales LLP, as well as the Welsh Government's core activities.

7 Available at: <http://www.ons.gov.uk/economy/grossvalueaddedgva/bulletins/regionalgrossvalueaddedincomeapproach/december2015>

8 Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/464196/HMRC_disaggregated_receipts_-_Information__Analysis.pdf

9 Available at: <https://www.uktradeinfo.com/Statistics/RTS/Pages/default.aspx>

10 Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/timeseries/wapop>

11 Welsh Government, 2015. Welsh Government Consolidated Accounts 2014-15. Available at: <http://www.assembly.wales/laid%20documents/agr-ld10344/agr-ld10344-e.pdf>

Table A.2 provides a breakdown of Wales' estimated contribution to the EU budget for the years 2010 to 2014.

TABLE A.2: Breakdown of Wales' estimated contribution to the EU budget					
	£ million				
	2010	2011	2012	2013	2014
Sugar Levies	0	0	0	0	0
Customs Duties	46	47	47	45	43
VAT-based contributions	88	88	92	94	95
GNI-based contributions	370	384	398	470	429
VAT & GNI adjustments	6	1	-4	4	57
UK rebate	-148	-152	-150	-177	-211
Contributions (net of rebate)	363	369	383	437	414
Total Public Sector Receipts	522	508	560	658	658
Net Contributions to EU Budget	-159	-140	-177	-220	-245

Other estimates

Other estimates have been made of Wales' net benefit from the EU. A report for Plaid Cymru's Jill Evans MEP also found a net benefit for Wales from the EU.¹² The report differed from this analysis by looking at the entire 2007-2013 European funding round and taking a yearly average. While public sector receipts recorded were relatively similar, the report calculated Wales' contribution to the EU on the basis of a population share of the UK's contribution. This means the reported contribution was higher than estimated here, and hence the net benefit per person was smaller.

The Centre for European Reform also produced an estimate of Wales' net benefit from the EU.¹³ The report looked at the yearly average for the next EU funding round from 2014 to 2020. In contrast to this report, Wales' contribution to the EU budget was based on Wales' share of the UK's GVA, which provides a lower estimate than presented here. The UK's contribution to the EU is also set to fall over coming years. These factors mean that the CER estimates are higher than those presented here.

The differences between estimates signify the volatility of Wales' net contribution and also highlight the impact of differences in methodologies, assumptions and in coverage of the studies. However, the difference in the relative positions of Wales and the UK with respect to net benefits and contributions is illustrated starkly in the analysis above.

12 Haines, L., 2015. EU Membership: Benefits and challenges for Wales. Eginio. Research report for Jill Evans MEP. Available at: http://www.jillevans.net/eu_membership_benefits_and_challenges_for_wales.pdf

13 Centre for European Reform, 2014. The economic consequences of leaving the EU. Final report of the CER commission on the UK and the EU single market. June 2014. Available at: http://www.cer.org.uk/sites/default/files/smc_final_report_june2014.pdf