

Ref: A05416

MR LANKESTER

*I agree with the Chancellor, Prime Minister
- we must fundamentally restructure
the budget on the basis of his May 30th agreement that I respond
specifically to the time of restructuring below?
as a permanent solution
ref. 12*

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1. You asked for advice on the Chancellor of the Exchequer's minute of 4 August to the Prime Minister, in which he argued that, instead of the objective of achieving a budget contribution no higher and if possible lower than that resulting from the 30 May settlement, we should raise our sights and seek to eliminate our net contribution altogether. The minute needs to be read in conjunction with the letter which the Chancellor of the Exchequer's Private Secretary wrote to you on 4 August explaining the changes between the forecasts in the current PES exercise about our net contributions to the Community Budget compared with the assumptions about them in the last Public Expenditure White Paper.

2. The Prime Minister has agreed that a meeting of OD should be held on 8 September to consider our strategy for the next phase of negotiations on budget restructuring. She could suggest to the Chancellor that this will provide a convenient opportunity to consider whether we should raise our sights as he suggests. In this context it will also be helpful for the Committee to have as background the Treasury's current forecasts of our net contribution if the 30 May settlement were prolonged.

3. Turning to the comparison with the previous White Paper forecasts, the letter of 4 August explains that the underlying assumptions, on which those forecasts have been based, have been changed, and that the price of better than expected refunds this financial year will be worse than expected refunds in 1982/83. For internal planning purposes it would be sensible to adopt the more cautious basis of forecasting now suggested by the Treasury; but before the next White Paper is published, in March, the position should be reconsidered in the light of the restructuring negotiations to see what different assumptions or forecasts would be appropriate. Changes in assumptions will have a more limited effect on the figure for 1982/83 than for later years. This is because, although the bulk of the refunds will relate to the 1982 calendar year, a part will relate to 1981 which is covered by the 30 May agreement. The final figure will depend on progress with the negotiations.

RA
Robert Armstrong

7 August 1981