



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

Prime Minister.

We must discuss. I just can't accept there isn't interpretation.

2nd July 1980

Prime Minister

The figures in para 6 (particularly the calendar year figures) look less good than those which have been used publicly. The reasons are set out in para 4: I have asked for a more detailed explanation of the extent to which each factor affects the figures. The analysis in this letter will not, of course, become public for many months but the presentation will need careful consideration.

This is potentially very difficult. The figures I have singled in paragraph 6 compare with those in the first sentence of paragraph 3. As you will see, they are broadly double! This will need some very convincing explanation if we are not to be attached for setting for much less on the budget than we claimed at the time.

T.P. Lankester, Esq., No.10, Downing Street

Dear Tim,

PRESENTATION IN THE PUBLIC EXPENDITURE SURVEY OF THE UK CONTRIBUTION TO THE COMMUNITY BUDGET

- 1. The Public Expenditure Survey (PES) will be circulated to Cabinet later this week, and will show the benefits of the 30 May agreement concerning the UK contribution to the Community Budget. The Chancellor thought that the Prime Minister might like to have a note about the effects of the agreement on the figures in the survey.

The 30 May Agreement

- 2. The 30 May agreement specified a UK net contribution of 609 MEUA in 1980 and 730 MEUA in 1981, subject to a sliding scale formula if the estimates on which those net contributions were based should change. For the third year, 1982, it was agreed that the UK net contribution would either be determined by the general review of Budget arrangements commissioned by the Council of Ministers, or there would be a solution "along the lines of the 1980/81 solution".
- 3. In constant 1980 survey prices, the sterling equivalents of the figures quoted in paragraph 2 for the UK net contribution in 1980 and 1981 are £328 million and £362 million respectively. The price base for the 1980 survey is the 1979 price level, and the conversion factors between the EUA figures and the 1980 survey price figures in sterling quoted above take into account forecast exchange rate changes between the pound and the EUA, and also the forecast changes in prices between 1979 and 1980 and 1981 respectively.

/The Public

4/7



* cf. in the table attached to
the Chief Secretary's paper on 'Main Issues': C(90)39
Phinds

The Public Expenditure Survey *

4. The figures in the Public Expenditure Survey differ significantly from those in the previous paragraph. There are four important differences in coverage between the Commission figures used in the Budget negotiations, and appearing in the 30 May agreement, and those in the survey. These are as follows:-
- (a) Some VAT contributions in respect of 1980 will not in practice be paid until 1981. The Commission attribute these to 1980; but in the survey they are attributed to 1981.
 - (b) The PES figures include refunds paid in 1980 in respect of 1979 under the terms of Article 131 of the Treaty of Accession. These are excluded from the Commission figures for 1980.
 - (c) The PES figures include the UK's contribution to the unallocated Budget - chiefly Community aid - whereas the Commission figures related only to the allocated Budget.
 - (d) The PES figures include our best estimates of the effect of the risk-sharing formulae in the 30 May agreement. These provide for the UK to take specified portions of the increases in our net contribution over the basic estimates. We think it likely that these provisions will operate.
5. A further difference arises because the 30 May agreement concerned the net contribution that the UK would make in respect of individual calendar years, but it provided that the refunds would be paid from the following year's Community Budget, except insofar as advance payments were agreed by the Council of Ministers. The PES, on the other hand, attributes financial flows to the years in which they actually occur.
6. The following table gives the figures that will appear in the survey and also shows the reduction in the figures compared with Cmnd 7841, the last published White Paper. The table is on the same basis as tables 2.2.1 and 2.2.2 of Cmnd 7841 and includes Community expenditure on aid, attributed to the aid programme. It contains the stylised assumption that our net contribution in 1982 (when our gross contribution is assumed to be constrained by the maintenance of the 1 per cent VAT ceiling) remains at about the same level as in 1981. This is intended to be a neutral assumption.



UK contributions to and receipts from the Community Budget
(at 1980 survey prices) £ million

<u>Calendar years</u>	<u>Gross Contribution</u>	<u>Receipts</u>	<u>Net Contribution</u>	<u>Savings over Cmnd 7841</u>
1980	1715	1020	695	362
1981	2385	1690	695	455
1982	2550	1850	700	600

Financial years

80/81	1885	1450	435	626
81/82	2475	1770	705	495
82/83	2550	1850	700	650

These are the figures in the survey.

It will be seen that the differences in coverage and timing explained earlier result in a much larger net contribution for 1980 and 1981 than the figures in paragraph 3.

7. The 1980 figure in the above table will be higher if we do not receive an advance of our 1980 refund of 300 MEUA by the end of this year. Nevertheless, our expectation that the bulk of our refund in respect of 1980 will be received in the first quarter of 1981 means that, as the table shows, the published figure for the financial year 1980/81 will be closer to the figures that were announced after the 30 May agreement; and the figure for the financial year will not be affected if we do not receive an advance payment.
8. The Chancellor intends that the reasons for the differences between the figures in the 30 May agreement and those in the survey will be fully explained in the Public Expenditure White Paper when that is eventually published.
9. I am copying this letter to George Walden and David Wright.

Yours

John

A.J. WIGGINS

CONFIDENTIAL



2 - JUL 1980

