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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

9 July 1980

M.O'D.B. Alexander, Esq.,
No.10, Downing Street

Dear Michael,

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

This letter and its enclosures amplify ^{*attached*} the figures and explanations in my letter of 2 July about the UK contribution to the Community Budget.

The material falls into two parts, and is summarised in
..... the two tables attached.

Table I is concerned with PESC figures. It starts with the last published figures in Cmnd 7841 for our net contribution. It then revises these figures to take account of all developments since publication, other than the refunds under the 30 May Agreement. Finally it applies those refunds. The main feature of this table is the effect of the time lag on our refunds, even though it assumes that we secure an advance payment of £135 million (300 meua at 1979 outturn prices) before the end of 1980. (We shall not know what advance we will get in 1980 until after the German elections.)

Table II reconciles the familiar Commission figures for our net contribution after the 30 May agreement with the PESC figures at the foot of Table I. It shows how the figures in the 30 May Agreement, which describe the intended outcome in respect of the years 1980 and 1981, need to be adjusted in order to show the expected cash flow in 1980 and 1981.

The main features of Table II are first, the effect of the lag in refunds as in Table I; secondly, that our estimates

/of our



of our net contributions are higher than those made by the Commission; and thirdly, that our contribution to the unallocated Budget is added back. The higher estimates of our net contribution take account both of a higher estimate of Community expenditure and a forecast of higher UK VAT contributions (in mua) attributable to the strong exchange rate, though these extra VAT contributions will be payable in arrears (line 7).

Most of these points will be familiar to the Prime Minister. The reporting telegram sent by Sir M. Butler following the 30 May Foreign Affairs Council (Telno 2654 of 30 May) recorded the Council decision, paragraphs 5 and 6 of which set out the general arrangements that had been agreed about the timing of payments. The Chancellor's minute of 12th May, before the Council, reminded the Prime Minister that the Commission's definition of our net contribution excluded the UK's share of the unallocated Budget (para.10) and he called attention to the presentational problems this might cause. The Annex to that minute set out the Treasury's latest forecasts of our unabated contribution for 1980 and 1981, which, at that stage, were significantly higher than the Commission's. (The latest figures which underlie the Public Expenditure Survey are in fact a little lower than we were then forecasting.)

*in folder
10/7/80*

Our total refund in respect of the two years 1980 and 1981 was quoted in the 30 May Agreement as the equivalent of £1570 million. The counterpart in Table I of this figure is the sum of the refunds shown against the three calendar years 1980, 1981, 1982:-

<u>£ million</u>
135
495
145
663
<u>1438</u>

We expect the £1570 million refund to be increased by the triggering of the risk sharing formula to give a cash refund of £1780 million. When converted to 1980 Survey prices (1979 outturn prices) this £1780 million becomes £1438 million. Lagged payments are smaller payments in PESC terms.

I should like to make two other points. First, while the present estimates reflect our most up-to-date assessment, it is virtually certain that they will change in the light of subsequent developments and information, before we come to publish the next Public Expenditure White Paper.

/Secondly,



Secondly, my earlier letter may have given the impression that the new estimates relating to the UK net contribution to the Community Budget were in the Public Expenditure Survey Report itself. I am sorry if it did. They are not in the Report, but underly the figures in the paper by Treasury officials on the "main issues" C(80)39.

I am sorry that all this is so complicated, but there is no other public expenditure programme so beset with complexities. This one involves change from an attributable basis and calendar years to a cash flow basis and financial years; a currency conversion; forecasts of total Community expenditure and timing of payments, that is guesses at decision-taking in a 10 Member international organisation; and estimates of imports and consumption not only in the UK but in the 8 (shortly 9) partner countries.

I am sending copies of this letter to George Walden (FCO) and David Wright (Cabinet Office)

Yours ever

John Wiggins

A.J. WIGGINS

TABLE 1 OLD AND NEW FIGURES ON PESC BASIS: CASH FLOW

£m at 1980 Survey Prices (=1979 Outturn)

	FINANCIAL YEARS			CALENDAR YEAR		
	<u>1980/81</u>	<u>1981/2</u>	<u>1982/3</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
NET CONTRIBUTIONS Cmnd 7841 (tables 2.2.1 and 2.2.2)	1061	1200	1350	1057	1150	1300
REVISIONS TO Cmnd 7841 FIGURES BEFORE 30 MAY REFUNDS (minus means reduction in our net contribution)						
Revised Own Resources Estimates*	-65	+151		-74	+121	+268
"Carry Forwards" from 1979 Budget/UK share	-50			-50		
Higher CAP receipts, including 30 May Agricultural Package	-97	-122		-90	-116	-138
Other receipts changes	-8	+2		-13	+8	-15
Downward revisions to contributions and receipts to stay within the 1% VAT limit						-102
Refund allowed for under unadjusted financial mechanism	+129	+201			+172	+210
TOTAL OF REVISIONS	-91	+232	n.a.	-227	+185	+223
REVISED NET CONTRIBUTIONS BEFORE REFUNDS UNDER 30 MAY AGREEMENT	970	1432	n.a.	830	1335	1625
EFFECT OF REFUNDS						
Net Refunds Paid in Respect of 1980	535	122		135	495	
Net Refunds Paid in Respect of 1981		605	203		145	663
Net Refunds Paid in Respect of 1982						[160]Ø
NET CONTRIBUTIONS: CASH FLOW (on the same basis as tables 2.2.1 and 2.2.2)	435	705	n.a.	695	695	700

Including effect of stronger exchange rate upon timing of UK VAT contributions; and our share of extra CAP costs following the agricultural price settlement.

WORKING ASSUMPTIONS.

2 COMMISSION FORECAST FOR UK NET CONTRIBUTIONS CONVERTED TO
PESC CASH FLOW BASIS

	<u>1980</u>	<u>1981</u>	<u>1982</u>
A. CONTRIBUTIONS IN MUA IN RESPECT OF:-			
1. UK Net Contribution after 30 May Agreement as forecast by the Commission	609	730	[885] [∅]
B. CONTRIBUTIONS IN RESPECT OF THESE YEARS IN £m AT 1980 SURVEY PRICES (=1979 outturn prices)			
2. Line 1 in £m at 1979 outturn prices	329	362	418
3. Contributions to Unallocated Budget (Lome etc)	+81	+87	+95
4. -Extra UK Net Contributions expected under risk sharing formula*.	+13	+74	+61
5. Total Net Contribution <u>in respect of</u> the named years	423	523	574
C. YEAR TO YEAR REALLOCATIONS (WITH PRICE BASIS ADJUSTMENTS) TO REACH CASH FLOW FIGURES			
6. Refunds in respect of 1980 paid later	+539	-495 [‡]	
Refunds in respect of 1981 paid later		+697	-663
Refunds in respect of 1982 paid later			+757
7. Adjustments for lagged payment of higher UK VAT contributions due to stronger exchange rate	-134	-30	+131
8. "Carry Forwards" from 1979 Budget (UK share)	-50		
9. Article 131 refund in respect of 1979	-83		
10. Downward revision of Contributions and Receipts to stay within the 1 percent VAT limit			-102
11. FIGURES FOR PROGRAMME 2.7 (table 2.2.1 basis)	695	695	700

[∅]Working Assumption.

*Mainly reflects larger Budget estimates than Commission have used but also reflects the effect of the stronger exchange rate in raising our VAT contributions in mua even though the extra payments are delayed to the next year.

[‡]Differences in price bases mean that £495m at 1979 prices received in 1981, is the equivalent of £539m at 1979 prices in 1980.