



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

PRIME MINISTER

EC CONTRIBUTIONS AND THE PUBLIC EXPENDITURE WHITE PAPER

At your meeting on 11 July, I undertook to consider how we could improve the presentation of the figures for our Community budget contributions in the Government's next Public Expenditure White Paper. Since then, there have been two relevant developments: agreement has been reached in Brussels on the timing of our refunds, and the Public Accounts Committee have decided to publish a report commenting on the presentation of EC Budget figures. In the light of these developments and our earlier discussion, I have taken a close look both at the figures themselves and at the method of presentation in the White Paper. This minute outlines the resulting proposals. The picture now envisaged represents a considerable improvement on that given in John Wiggins' letter of 9 July to Michael Alexander.

Revisions to figures

2. The figures which we considered in July have been updated in the light of later information including the agreement on the timing of our refunds. In addition, I believe that the Government would be justified in basing the White Paper figures on rather more favourable assumptions about the development of the Community budget than those which underlay the figures in John Wiggins' letter of 9 July. The figures could reasonably assume that -

/i. the UK share

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i. the UK share of the Community VAT Own Resources base will remain unchanged (previous estimates assumed that it would rise by about 6% as a result of negotiations with the Commission over the coverage of the base); and,

ii. the economies needed to keep Community spending within a 1% VAT ceiling will bear as heavily on CAP expenditure as on other categories, thus producing a more favourable outcome for the UK.

3. On the basis of these assumptions and of the most recent information, (but ignoring receipts from the EIB and the ECSC, and that part of Community aid which is attributed to the UK aid programme) the latest figures we have calculated for our net contributions in this financial year and next are:-

	£ million at 1980 White Paper prices	
	<u>1980-81</u>	<u>1981-82</u>
1. Unadjusted net contribution	945	1120
2. Net refunds	545 -	670 -
3. Adjusted net contribution	410	450
4. 2 as a percentage of 1	<u>58%</u>	60%
5. Improvement in 3 since Cmnd 7841	660	750

These new figures compare favourably, especially in 1981-82 with those foreseen in July, which were:

1. Unadjusted net contribution	970	1432
2. Net refunds	535	727
3. Adjusted net contribution	435	705
4. 2 as a percentage of 1	<u>55%</u>	51%
5. Improvement in 3 since Cmnd 7841	636	495



4. I propose that the figures in the first table in paragraph 3 should be the ones we use in the public expenditure exercise this month. If further work in the near future shows that, on the assumptions we have used, some further contribution from this source to the public expenditure exercise could be justified, we could take credit for that at a later stage. On the other hand, although the figures in paragraph 3 are well within the range of possible outcomes, the assumptions on which they are based err if anything on the side of optimism. This optimism could produce an excess of public expenditure of up to £50m.

White Paper Presentation

5. The presumption must be that having used the paragraph 3 figures in the public expenditure exercise, we would use them in the Public Expenditure White Paper in March also. But we do not need to decide that now. The figures could well change again in the light of events and we can make a final decision nearer the time of publication.

6. The percentages of net refunds to unadjusted net contributions remain obstinately lower than one would wish, especially in 1980-81. But the comparison with the figures published in the last White Paper is impressive.

7. The revised estimates in paragraph 3 will improve the appearance of the financial year figures in the White Paper. They do not, however, solve the problem of presenting calendar year estimates of the UK's net contribution. On a calendar year cash flow basis, the reduction in the UK's unadjusted net contribution would still amount to no more than 13% in 1980 and 54% in 1981.

/8. I doubt whether



8. I doubt whether we can simply drop calendar year figures. This would maximise suspicion. MP's and commentators would be bound to ask why they had been dropped, and what the calendar year figures corresponding to the financial year figures were. We could decline to answer; but it would not be easy in practice to hold this line; especially as commentators could have a good shot at constructing the figures for themselves.

9. A better solution, which I recommend, would be to change the basis of presentation of the calendar year figures in the White Paper so as to show receipts and payments in respect of the Community budget for a particular year, not cash flow during the year. The net refunds due in respect of (say) the 1980 budget would be shown against the 1980 budget, even though the bulk of the payments will occur in 1981 and be financed from the Community's 1981 budget. As it happens, a PAC report which is to be published on 23 October (and of which we have seen a draft) provides a helpful peg for making this change.

10. If we adopt this solution, the calendar year table in the White Paper would be on the following lines:

	£ million at 1980 survey prices		
	<u>1980</u>	<u>1981</u>	<u>1982</u>
1. Gross contributions*	1780	2040	2040
2. Receipts			
a. Negotiated refunds	630 -	700	700
b. Other	860 -	910	910
3. Adjusted net contribution	290	430	430
4. Negotiated refunds (2a) as percentage of unadjusted net contribution (1-2b)	68	62	62

*excluding contribution towards our own refunds



11. This presentation shows the figures in a more favourable light than the cash flow basis presentation which it would replace. But the new presentation would be consistent with the basis of the settlement and does, I believe, provide a true picture of the financial obligations that the UK incurs when agreeing to the adoption of a particular Community budget.

PAC Report

12. The PAC report of 23 October provides us with a convenient opportunity to tell Parliament what we propose several months in advance of the publication of the White Paper. As you will see from the attached extract - Annex A - the PAC criticise the "confusing variety of forms" in which information on the Community budget is presented to Parliament. The Treasury minute in reply to the report would say that, following a review of the information supplied to Parliament on the Community budget, we had decided that the White Paper should henceforth concentrate attention on two main types of presentation:

- i. the financial year cash flow figures needed for public expenditure and budgetary purposes, and
- ii. the figures "in respect of" a particular Community budget described above.

I attach the draft Treasury minute - Annex B - which would, on this basis, be our reply.

13. The proposed change in presentation would not necessarily divert all attention from the calendar year cash flow basis figures. We may well receive PQs asking for such figures. It would then be for consideration whether or not we should supply them. We could argue that to supply such figures regularly would create again the confusion criticised by the PAC.



Conclusions

14. My conclusions are:

i. we should use the revised estimates in the first table in paragraph 3 above as the basis for our forthcoming decisions on public expenditure and possibly in the next White Paper, but we should bear in mind that they may err on the optimistic side;

ii. we should plan to replace the calendar year cash flow basis table in previous White Papers by the table of figures "in respect of" a particular budget described in paragraph 10 above; and

iii. we should foreshadow this change of presentation in our reply to the forthcoming PAC Report, as in paragraph 7 of the attached draft Treasury minute.

...

May we proceed accordingly?

15. I am copying this minute to the Foreign Secretary and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.', written in a cursive style.

(G.H.)

22 October 1980

(iv) *Imbalance in the UK's net contributions*

15. From information on net budget transfers within the Community provided by the European Commission and reported to the House of Commons on 25 February 1980 we see that the UK's contributions (after allowing for the adjustments under Article 131) exceeded its budgetary receipts by £626 million in 1978 and £845 million, provisionally, in 1979. The initial budget estimate for 1980 suggested that the excess would increase further to £1,310 million. In each of the three years the UK was the largest single net contributor, with Italy the second largest in 1978 and Germany in 1979 and 1980. The Treasury attributed this obvious imbalance in the UK's net contribution mainly to lower than average receipts in the Community but partly to higher than average contributions. They also told us about the Government's negotiations to secure rectification of the position.

Appendix to
the Report
Os 4523
4558-60

16. Since we took evidence Parliament was informed on 2 June 1980 of the agreement reached in the Council of Ministers on 30 May 1980. Under this agreement the UK's net contribution for 1980, currently estimated by the Commission at 1,784 million EUA (about £1,080 million), would be reduced by 1,175 million EUA to 609 million EUA (£370 million). The net contribution for 1981, provisionally estimated by the Commission at 2,140 million EUA (£1,300 million), would be reduced by a similar proportion to 730 million EUA (£440 million). If the actual net contributions, before adjustment, for either of the two years exceeded the Commission's estimate the excess would be shared between the UK and the other Member States in agreed proportions. The proposed adjustments for 1980 and 1981 would be effected partly by removing the restrictions in the existing financial mechanism so as to enable the UK to qualify for a refund of contributions, and partly by the adoption of a new programme of financial support specifically for projects within the UK so as to increase its receipts. The Council also undertook to resolve the problem thereafter by means of structural changes. The agreement on the adjustment of the UK's net contributions was accompanied by an agreement on increases in Community farm prices for 1980. These were expected to result in increases in prices to consumers in the UK totalling about £200 million.

17. We do not think it would be appropriate for us to comment on the merits of the settlements negotiated by the Government, but there are some aspects to which we would draw attention. Firstly, the ad hoc settlements for 1980 and 1981 clearly do not provide an appropriate basis for any long term solution to the problem; we therefore trust that the consideration of the structural changes will bring about a more equitable sharing of the financing of the Communities' budget. Secondly, since the budgetary transactions do not by themselves provide an adequate measure of the costs and benefits of Community policies to the UK, we trust that full weight will also be given to these wider considerations in the future review of the budgetary arrangements. Thirdly, we do not know if the proposed new programme of financial assistance for projects within the UK will require some matching public expenditure from UK funds; we hope not, but in any event we trust that such projects will be

selected on their economic or social merits and not simply as a device to increase the UK's receipts from Community funds.

(v) *Accountability to Parliament*

18. Although the Consolidated Fund Accounts record the sums issued in respect of contributions towards the Communities' budgets we do not think this provides a sufficient measure of accountability for the expenditure of such large sums in accordance with the European Communities Act but without further periodic and specific Parliamentary authorisation. The extent of the UK's commitments is effectively determined when the Communities' budget for each calendar year is finally approved. We consider the Parliament has a right to be informed at that stage of the UK's estimated contributions towards the budget and of its expected receipts both from the refunds for collection expenses and from each of the Community programmes. We acknowledge that Parliament has in the past been given a substantial amount of information about the Communities' budgets, but this has been on an ad hoc basis and in a confusing variety of forms.

19. We therefore recommend that the Government should in future present to Parliament, as soon as the Communities' budget for any year is finally approved or subsequently revised, a statement giving the details of that budget, the UK's estimated contributions towards it and the expected receipts from it, expressed both in EUAs and in sterling; and that they should also present, after the close of the Communities' budgetary year, a corresponding outturn statement which can be reconciled with the charges to the Consolidated Fund Accounts. We also consider that such statements should, as far as possible, be set in the context of the contributions and receipts of the other Member States. As stated in paragraph 15 above, Parliament was provided with such information for 1978, 1979 and the initial budget estimate for 1980, but the Treasury told us that this had been obtained from European Commission sources and was derived from an ad hoc exercise. They were uncertain whether the Commission would continue to produce such information regularly. Since such information must clearly be available to the Commission and is of legitimate concern to the individual Member States, we trust that the Government will press for its continuing availability and will incorporate it in the statement which we recommend should be presented to Parliament.

ANNEX B

DRAFT TREASURY MINUTE IN REPLY TO PAC REPORT (See paragraph 12
of covering minute)

The Government note the comments and recommendations of the Committee.

2. The Government will certainly seek to ensure that the review of the Community's policies and budgetary arrangements provided for in the 30 May 1980 agreement brings about a more equitable sharing of the financing of the Community budget and takes due account of the non-budgetary effects of Community policies.
3. The Government notes the Committee's comments on the proposed new scheme of Community support for public investment programmes in the UK. The Community will be contributing a proportion of the cost of these programmes, which will in all cases be part of existing public expenditure plans and chosen on their economic and financial merits.
4. The Government have noted the Committee's view that, while a substantial amount of information about the Communities' budgets is already provided to Parliament, it has been on an ad hoc basis and in a confusing variety of forms. They have concluded that the most helpful course in future would be to provide Parliament with the following statements.
5. First, as recommended by the Committee, the Government would present to Parliament, as soon as possible after the Community's budget for any year is finally approved, a statement giving details of that budget and the UK's expected contributions towards and receipts from it, expressed both in EUAs and in sterling. Second, again as recommended by the Committee, an outturn statement on the same basis would be presented to Parliament in the autumn of each year, as soon as the necessary figures for the preceding year's budget are available from the Commission.

6. The Government hope that it will be possible to include with these statements information from the Commission about the contributions and receipts of other member states. They will ask the Commission for this information.

7. Finally, the Government would improve the presentation of the UK's contributions to the Community budget in the annual Public Expenditure White Paper by concentrating on two forms of statement. The first would, as in previous White Papers, show gross and net contributions to the Community budget on a cash flow basis by financial years. This statement could be reconciled with the charges to the Consolidated Fund and National Loans Fund accounts, and corresponds to UK methods of public expenditure and budgetary control. The second statement would show the gross and net contributions and the refunds arising out of each annual Community budget, irrespective of when the payments and receipts occurred. This statement would reflect the Community's budgetary basis and the Community decisions which determine our gross and net contributions and commit UK public expenditure accordingly.

8. The statements in the supplementary statements to the Consolidated Fund and National Loans Fund accounts would continue. These statements would also identify in future the refunds arising from the 30 May agreement.



12-2 OCT 1980