

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000 16 January 1981

M O'D B Alexander Esq
Private Secretary
Prime Minister's Office
No.10 Downing Street
LONDON SW1

Prime Minister

To write.

(2)

M

16/1

Dear Michael,

EC CONTRIBUTIONS AND THE PUBLIC EXPENDITURE WHITE PAPER

In agreeing to the proposals made by the Chancellor of the Exchequer in his minute of 22 October on the above subject, the Prime Minister asked to see the latest forecasts for our net contributions to the Community budget before they were finally included in the public expenditure White Paper. Your letter of 27 October refers.

I now enclose drafts of the passages in the forthcoming White Paper which present these figures.

As the table below indicates, the new financial year figures are close to those given in the Chancellor's earlier minute. The earlier figures are shown in brackets.

£ million at 1980 Survey prices

	<u>1980-81</u>	<u>1981-82</u>
1. Unadjusted net contribution	942 (945)	1127 (1120)
2. Net refunds	515 (545)	677 (670)
3. Adjusted net contribution	427 (410)	450 (450)
4. 2 as a percentage of 1	55% (58%)	60% (60%)
5. Improvement in 3 since Cmdn 7841	+634 (660)	+750 (750)

The new calendar year figures "in respect of" successive Community budgets, which we undertook to provide in response to the PAC's Twenty-Eighth Report, 1979-80 Session, are likewise fairly close for 1981 to the figures in the Chancellor's earlier minute; but the net position on the

/1980 budget now



1980 budget now looks rather less favourable, mainly as a result of later information which has enabled us to allocate receipts to particular budgets. For ease of comparison the cash figures from table 2.2.2 of the White Paper draft have been converted in the table below to 1980 survey prices. The earlier figures are again shown in brackets.

	£ million at 1980 survey prices	
	<u>1980</u>	<u>1981</u>
1. Gross contributions*	1773 (1780)	1912 (2040)
2. Receipts		
a. negotiated refunds	632 (630)	683 (700)
b. other	706 (860)	799 (910)
3. Adjusted net contribution	435 (290)	430 (430)
4. Negotiated refunds (2a) as percentage of unadjusted net contribution (1-2b)	<u>59%</u> (68%)	<u>61%</u> (62%)

*excluding contribution towards our own refunds

For the later years, the Chancellor proposes that the White Paper tables should assume that our net contribution will continue at the same level in real terms as in 1981-82. The accompanying draft text makes clear, however, that this is no more than a stylised assumption; that our actual net contributions will depend on the outcome of the Community's budget restructuring review; and that the Government will do their utmost to achieve a fully satisfactory outcome in that review.

I am copying this letter to George Walden (FCO) and David Wright (Cabinet Office).

yours ever

John Wiggins

A J WIGGINS
Principal Private Secretary

PUBLIC EXPENDITURE WHITE PAPER, PART 1

DRAFT PARAGRAPH ON COMMUNITY BUDGET

European Community budget refunds

The European Council of Ministers agreed on 30 May 1980 that the United Kingdom's net contribution to the Community budgets for 1980 and 1981 should be reduced substantially by means of special refunds. These refunds are expected to amount to some £515 million in 1980-81 and some £675 million in 1981-82, the precise sums depending on our net contributions before refunds and on the exchange rate between the £ and the Community budget unit of account. Allowing for the refunds and other revisions, our net budget contribution is now expected to be some £450 million in 1981-82, a reduction of £750 million compared with the corresponding figure in Cmnd 7841. For the succeeding years, the White Paper tables assume that our net contribution will continue at the same level in real terms as in 1981-82. This is no more, however, than a stylised assumption. The actual net contribution will depend on the outcome of the Community's budget restructuring review provided for in the 30 May agreement. The Government will naturally do their utmost to achieve a fully satisfactory outcome in this review, negotiations on which are expected to begin later this year.

PUBLIC EXPENDITURE WHITE PAPER, PART 2DRAFT CONTRIBUTION TO CHAPTER 2.2Net contributions to European Community institutions

Since publication of the last public expenditure White Paper (Cmnd 7841), the Government have succeeded in negotiating large reductions in the United Kingdom's net contributions to the European Community budget by means of special refunds. The net contributions figures from 1980-81 onwards in this White Paper are consequently much lower than those in the previous White Paper.

The figures for net United Kingdom contributions to European Community institutions in table 2.2 are made up of three components: net contributions to the European Community budget (excluding the United Kingdom share of the cost of overseas aid expenditure by the Community, which is included within the aid programme); contributions to the capital and reserves of the European Investment Bank (EIB); and receipts from the European Coal and Steel Community (ECSC). Figures for net contributions to the Community budget (including our contribution to the Community's overseas aid) are shown separately in table 2.2.1. Also included in that table are figures for our gross budget contributions, receipts other than negotiated refunds, and the negotiated refunds mentioned in the previous paragraph.

The Community budget finances all the Community institutions - the Council of Ministers, the Court of Justice, the Commission and the European Parliament - and also the Court of Auditors. The main Community policies, including the common agricultural policy, the Social Fund, the Regional Development Fund, aid and research, are financed from the Commission's sections of the budget, which accounts for some 98 per cent of the total.

Table 2.2.1

The United Kingdom's gross contributions to the Community budget are made under the 'own resources' system, established by a Council Decision of 21 April 1970. Under this system, which has applied in full to the six original member states since 1978 and to the United Kingdom, Denmark and Ireland since 1980, member states pay over monthly to the Community agricultural levies, customs duties and the yield of a value added tax not exceeding 1 per cent of the value of transactions included in a harmonised spending base agreed in 1977. The budget is financed almost entirely from these 'own resources'. The projections in table 2.2.1 assume that the existing basis of 'own resources' will be maintained, and in particular the 1 per cent limit on VAT own resources. The rate of VAT own resources provided for in the 1981 Community budget as adopted is just under 0.9 per cent. Gross contributions by the United Kingdom under 'own resources' are estimated to amount to about 21 per cent of total Community revenue in 1980 and 1981.

Gross receipts from the budget by UK public sector bodies (other than negotiated refunds) are listed in column 2 of table 2.2.1 and in the upper part of table 2.2.3. The main sources of these receipts are the agricultural Guidance and Guarantee Funds, the Social and Regional Funds, and refunds of 'own resources' collection costs. The expenditure by the Intervention Board for Agricultural Produce and other public authorities in the United Kingdom which gives rise to these receipts scores as public expenditure in the programmes concerned. Gross receipts by the United Kingdom (other than negotiated refunds) are estimated to amount to about 9 per cent of total Community expenditure over the two years 1980 and 1981 taken together.

With our share of gross contributions running at about 21 per cent, and our share of gross receipts at about 9 per cent, the excess of contributions over receipts would have amounted to some 12 per cent of the total budget over the two years 1980 and 1981. Yet the United Kingdom is less prosperous than the Community average, and we incur further resource costs outside the budget as a result of the CAP. Hence the Government regarded a prospective net budget contribution on the scale described as unacceptable and initiated a protracted negotiation with our Community partners to have it reduced. Agreement was finally reached at the Foreign Affairs Council of 29/30 May 1980.

The 30 May agreement provides for a reduction of about 60 per cent in our net contribution to the Community budgets for 1980 and 1981, by means of special refunds to the United Kingdom. As shown in Table 2.2.2, we expect to receive net refunds of some £700 million in respect of the 1980 budget and some £800 million in respect of the 1981 budget (both figures at estimated outturn prices). The precise amounts will depend on the level of our net contributions before these refunds and on the exchange rate between the £ and the unit of account.

[Insert table 2.2.2]

The presentation in table 2.2.2 is a new one, which the Treasury undertook to provide in its reply to the Public Accounts Committee's Twenty-Eighth Report, 1979-80 Session. It is intended to indicate the net financial obligations on the United Kingdom which result from successive Community budgets. It differs from the calendar year presentation in earlier White Papers (and from the other tables in this chapter) by bringing together as far as possible all the transactions in respect of successive annual Community budgets, irrespective of when the actual receipts and payments take place, and by showing the negotiated refunds against the annual budget in respect of which they are paid. It reflects the Community's budgetary system, under which the financial year corresponds to the calendar year and expenditure from each budget occurs partly in the following year. This was also the basis on which the reduction in our net contributions was negotiated. The new presentation makes use, as far as possible, of Commission figures.

The negotiated refunds in respect of each calendar year's budget will mostly be paid to us in the following calendar year. We are due, however, to receive the bulk of them before the end of March, and thus before the end of the United Kingdom financial year. Mainly as a result of the refunds, the United Kingdom's estimated net budget contribution/in the financial year 1981-82 is now reduced to some £450 million in 1980 survey prices (some £530 million in cash terms) - a reduction of £750 million compared with the previous White Paper. Table 2.2.1 gives the latest figures.

The 30 May agreement and the subsequent enacting Regulations provide for reduction of the United Kingdom's net budget contribution by two routes - (a) partial refunds of gross contributions under an amended version of the Financial Mechanism originally negotiated in 1975, and (b) Community contributions in respect of certain United Kingdom public investment programmes, principally in the regions, under a new scheme of 'supplementary measures' for the United Kingdom. The precise distribution of the refunds between the two channels depends on movements in the economic variables which determine our Financial Mechanism entitlement, but our total refund entitlement is fixed by the 30 May formula. The United Kingdom has to contribute to the financing of these refunds, as to other Community expenditure. Hence the gross payments to the United Kingdom will exceed the agreed net refunds and will be calculated to produce the correct net amounts. The gross payments which we expect to receive in 1980-81 are shown in the lower part of table 2.2.3.

[Insert table 2.2.3]

Community contributions under the supplementary measures scheme during 1980-81 are expected to relate principally to certain investment programmes of the central government and public corporations in the North, the North West, Yorkshire and Humberside and South West regions of England, and in Scotland, Wales and Northern Ireland. The Community is expected to contribute also to certain trunk roads schemes outside these regions. The main categories of investment expected to receive Community support are listed below.

Roads
 Rail
 Water and sewerage
 Advance factories
 Telecommunications
 Housing in Northern Ireland

[TOTAL]

£ million
 (cash)

For the years after 1981, the Community is committed by the 30 May agreement to seek to avoid the recurrence of unacceptable budgetary situations for any member state by means of structural changes. The Commission is to produce a report by the end of June 1981, and

CONFIDENTIAL

negotiations between member states are expected to follow thereafter. If agreement on other means of reducing our net contribution has not been reached in time, the Commission is committed to making proposals for special refunds to the United Kingdom in respect of the 1982 budget on the lines of those for the 1980 and 1981 budgets.

The tables in this White Paper assume that our net contributions in 1982-83 and 1983-84 will remain at the same level as in 1981-82. This is no more, however, than a stylised assumption. As stated in Part 1, the Government will naturally do its utmost to achieve a fully satisfactory outcome in the forthcoming negotiations with other member states.

BIBLIOGRAPHY

∟The European Community Budget for 1981 (Cmnd 0000), HMSO 1981.7

Developments in the European Community, January-June 1980 (Cmnd 8042), HMSO 1980. (See especially the conclusions of the 29/30 May Foreign Affairs Council, reproduced at Annex III.)

Council Regulation No 2743/80 of 27 October 1980, amending Regulation (EEC) No 1172/76 setting up a financial mechanism; and Council Regulation No 2744/80 of 27 October 1980, establishing supplementary measures in favour of the United Kingdom. Official Journal of the European Communities, L284, 29 October 1980.

H M Treasury, Economic Progress Reports: relevant articles in issues for February, July and November 1980 and January 1981.

UK CONTRIBUTIONS TO AND RECEIPTS FROM THE COMMUNITY BUDGET
 £ million⁽¹⁾

Table 2.2.1

	Gross contribution	Gross receipts other than negotiated refunds	Negotiated refunds (gross)	Net contribution
1975-76	370	354	-	16
1976-77	544	320	-	244
1977-78	941	387	-	554
1978-79	1323	569	-	754
1979-80	1665	781	-	884
1980-81	1801	808	566 ⁽²⁾	427
1981-82	2066	807	809 ⁽²⁾	450 ⁽³⁾
1982-83	2200		1750	450
1983-84	2200		1750	450

- (1) 1975-76 to 1979-80 at outturn prices; 1980-81 to 1983-84 at 1980 survey prices.
- (2) Gross figures. The net negotiated refunds after taking account of UK contributions are estimated at £515 million in 1980-81 and £677 million in 1981-82 (both figures at 1980 survey prices).
- (3) The corresponding cash figure for estimated net contributions in 1981-82 is some £530 million.

UK CONTRIBUTIONS AND RECEIPTS ARISING OUT OF COMMUNITY BUDGETS⁽¹⁾
 £ million cash

Table 2.2.2

	1979	1980	1981
Gross contribution ⁽²⁾	1625	1972	2220
Receipts other than negotiated refunds	661	784	928
Unadjusted net contribution	964	1188	1292
Negotiated refunds (net)	-	703	792
Adjusted net contribution	964	485	500

- (1) The 1980 figures are calculated on the basis of the average exchange rate over the year of 1.67 units of account to the £. The 1981 figures assume an exchange rate of 1.78, the average rate for the last quarter of 1980.
- (2) Excluding UK contribution to negotiated refunds.

GROSS RECEIPTS FROM THE COMMUNITY BUDGET

Table 2.2.3

£ million at outturn prices

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81 (estimated)
<u>Receipts other than negotiated refunds</u>						
EAGGF Guarantee Fund	284	182	180	325	380	500
EAGGF Guidance Fund	7	13	32	24	38	40
Social Fund	14	28	44	65	117	110
Regional Development Fund	9	40	47	46	116	110
Refund of own resources collection costs	36	53	79	100	112	115
Other receipts	4	4	5	9	18	35
Total of above	354	320	387	569	781	910
<u>Negotiated refunds</u>						
Financial Mechanism	-	-	-	-	-	211
Supplementary measures	-	-	-	-	-	442
Total negotiated refunds	-	-	-	-	-	653

CONTRIBUTION TO TABLE 2.2

Net contributions to European Community institutions

1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
16	281	632	774	826	380	392	392	393