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Prime Minister

B.A.S.C. 14/17

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

13 July 1982

A.J. Coles, Esq.,
No.10 Downing Street

Dear John,

PUBLIC EXPENDITURE SURVEY AND NET CONTRIBUTIONS TO
EUROPEAN COMMUNITY

The Chancellor has asked me to send you a note about the figures for net contributions to EC institutions which will appear in this year's survey report. These are summarised in the table below.

Net Payments to EC Institutions (excluding aid)

	£ million			
	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>
Last White Paper/baseline (Cmnd 8494)	500	580	600	[624]
New figures	635	430	514	687
Difference	+135	-150	-86	[+63]

Underlying the new figures is a somewhat more favourable projection for our net budget contribution before refunds than implied by the last White Paper. The 1 per cent VAT ceiling is assumed to be maintained.

The main change, however, is a new assumption about UK budget refunds for 1982, based on the recent agreement. The last White Paper made the 'stylized' assumption that, following the precedent of the 30 May agreement for 1980 and 1981, we would receive each calendar year refunds equivalent to 66 per cent of our net contribution before refunds for the previous year. The new figures make the same assumption for 1983 and subsequent years but take account of the recent agreement on budget refunds for 1982, which was less favourable to the UK. This affects both the amount and the timing of our refunds. The total amount is reduced by some £120 million, and some £115 million of the net refunds which we expected to receive during the current financial year are now expected to come in during 1983-84 or 1984-85.

/The point

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The point which particularly concerns the Chancellor is the risk that the actual figures for 1983-84 and the later years could be much worse than the survey report figures. As explained above, and in the report itself, the survey figures assume that, for 1983 and later years, we shall again receive refunds equal to 66 per cent of our uncorrected net contribution, as implied by the 30 May 1980 agreement for 1980 and 1981, as against the 55½ per cent figure implied by the 25 May 1982 agreement for 1982. The figures make no allowance, moreover, for any repayments by the UK on account of the so-called 'overpayment' of refunds for 1980 and 1981. The Chancellor hopes that the outcome will indeed be as favourable as this, or more so, but feels that we can by no means count on it. The others may well try, for example, to impose on us a deal which -

- (a) gives us a basic refunds percentage of around 55 per cent, as for 1982, and
- (b) obliges us to repay (say) £300-400 million over a period of (say) two or three years on account of the so-called 'overpayment' for 1980 and 1981.

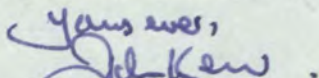
The Chancellor hopes that we would not feel obliged to accept such a deal. If we did, however, the outcome for 1983-84 onwards could be some £250-£350 million worse each year than the survey report implies, and the net contribution could be running at around £1 billion a year by the mid-1980s. The run of figures might then look something like this:-

	£ million			
	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>
Net payments to EC institutions	635	725	800	1000

The Chancellor believes that Ministers will need to have the above risks in mind in the forthcoming discussions on the Survey. The existence of such risks must clearly affect the decision on the size of the contingency reserve for the later years.

An alternative way of allowing for the above risks would have been to construct the survey figures on a more pessimistic assumption. But this would have raised two problems. First, there is no clear basis for such an assumption. Second, it would have meant inviting Ministers to take decisions on one set of figures in the Survey and then to publish another in the White Paper. The White Paper will have, for negotiating reasons, to show figures based on the assumption of 66 per cent refunds with no extra adjustments for the so-called 'overpayment': the UK could not afford to signal to others in the Community a willingness to contemplate anything less favourable than this.

I am copying this letter to the Private Secretaries of Members of the Cabinet, and to David Wright in the Cabinet Office.

Yours ever,

 J.O. KERR