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10 DOWNING STREET

From the Private Secretary

8 November, 1983

NET PAYMENTS TO EUROPEAN COMMUNITY INSTITUTIONS:

AUTUMN STATEMENT AND PUBLIC EXPENDITURE WHITE
PAPER

The Prime Minister has seen the Chancellor's minute of 4 November. She was not happy with his recommendation to adopt option 2. She commented that this year's figure turned out to be very embarrassing. She would rather put in uncorrected net contributions with a footnote.

SKF She would like to discuss this further with the Chancellor and I suggest that this be raised at their next bilateral.

I am sending a copy of this letter to Brian Fall (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

(A. Turnbull)

J. Kerr, Esq.,
HM Treasury

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Sy

*cc Euro Pol. Budget
cc AJO ①*



Prime Minister
Agree Option 2?

*AF
7/11*

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

May we discuss - this year

PRIME MINISTER

figure turned out to be very

embarrassing I would rather put

NET PAYMENTS TO EUROPEAN COMMUNITY INSTITUTIONS:
STATEMENT AND PUBLIC EXPENDITURE WHITE PAPER

AUTUMN

*in incorrect
net contribution is
with a footnote
ms*

I promised at your meeting this morning to let you know what I plan to show in the Autumn Statement and Public Expenditure White Paper for net payments to European Community institutions in 1984-85. While I hope that the Autumn Statement will be published on 17 November, the White Paper will not come out until February or March.

2. In all recent Public Expenditure White Papers and Autumn Statements, we have assumed that the 1 per cent VAT ceiling will be maintained and that we shall receive refunds of 66 per cent of our uncorrected net contribution to the allocated budget for the previous year. The White Papers have been careful to describe the latter as a 'stylised assumption'.

3. The latest projections prepared by officials are based on the same assumptions, and are as follows:

NET PAYMENTS TO EUROPEAN COMMUNITY INSTITUTIONS
(excluding overseas aid)

| | £ million | | | |
|------------------------------------|----------------|----------------|----------------|----------------|
| | <u>1983-84</u> | <u>1984-85</u> | <u>1985-86</u> | <u>1986-87</u> |
| Latest figures | 350 | 400 | 450 | 500 |
| Previous White Paper (Cmd 8789) | 380 | 450 | 530 | .. |
| Change | - 30 | - 50 | - 80 | .. |



The downward revisions for 1984-85 and 1985-86 mainly reflect lower projections for inflation and economic growth in the Community than were assumed in the last White Paper.

4. Obviously, much may change between now and the deadline for the White Paper, and we shall be reviewing the position in the New Year.

5. So far as the Autumn Statement is concerned, all we need to publish is a single figure for net payments to European Community institutions in 1984-85, plus the change compared with the last White Paper. As I see it, we have four main options:-

1. retain the now-traditional assumptions and repeat the last White Paper figure;
2. retain the now-traditional assumptions and show officials' latest estimates based on these (ie a reduction of £50 million compared with the last White Paper);
3. show our uncorrected net payments, on the basis that we have no agreement at this stage on future refunds or reliefs; or
4. show a much lower figure for our net payments, intended as a signal of what we are prepared to pay.

I do not think that it would be right to adopt options 3 or 4. Both would draw attention to the figures, which would I think be best avoided. Under option 3, we would show a large increase compared with the last White Paper; under option 4, a large



reduction. We would have to explain these changes. Under both options, the figures would be even less realistic than under our traditional assumptions, and the path of the public expenditure totals would be affected. Option 4 would also raise public expectations as to what will be achieved in the future financing negotiations.

6. In my judgement, therefore, the choice lies between options 1 and 2. Option 1 (no change) would be likely to attract the least notice. But I doubt however whether Option 2 would attract much notice either, for the improvement of £50 million compared with the last White Paper could be explained as an estimating change. Since there is a presumption in favour of publishing latest best estimates, unless there are strong reasons to the contrary, I propose to go for option 2.

7. I am copying this minute to Geoffrey Howe and Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'N.L.' with a flourish.

(N.L.)

4 November 1983