

1. Mr. Powell - bases.  
2. Prime Minister

These figures are allowed for in the overall assessment the Chief Secretary gave you yesterday. Contact for these increases to be given in the Autumn Statement?

PRIME MINISTER



FROM: CHIEF SECRETARY  
DATE: 17 October 1988

**AUTUMN STATEMENT: OUR NET PAYMENTS TO COMMUNITY INSTITUTIONS**

You will wish to be aware of the projection of net payments to Community institutions which, subject to the possibility of some minor last minute refinements, I plan to include in the Autumn Statement public expenditure tables.

2. The projection is as follows:

|  | £ million |         |         |         |
|--|-----------|---------|---------|---------|
|  | 1988/89   | 1989/90 | 1990/91 | 1991/92 |
| Latest projection                      | 950       | 1970    | 1950    | 1580    |
| PES baseline (projection in last PEWP) | 800       | 1470    | 1320    | 1350    |
| Difference                             | +150      | +500    | +630    | +230    |

You will see that the projection involves a substantial deterioration compared with the figures included in the 1988 Public Expenditure White Paper (PEWP). This deterioration may lead to some criticism when the figures are released, even though a substantial part of the worsening had been expected and publicly announced (see paragraph 3(i) below).

3. The new projection takes full account of the agreement on the future financing of the Community reached at Brussels in February, including the decision to increase the own resources ceiling to 1.2 per cent of Community GNP by 1992. It also takes account of the latest estimate of the Community's agricultural underspend next year and of the Commission's intention to introduce a rectifying letter to amend the draft 1989 Budget accordingly.

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4. The main reasons for the deterioration compared with the PEWP are as follows:

(i) the Brussels agreement. In your statement to the House on 15 February, you said that the Brussels package would cost "a maximum of about £300 million a year" compared to what would happen with a continuation of the 1.4 per cent VAT ceiling (the assumption used in the PEWP projection). This remains our estimate of what the package will cost;

(ii) higher customs duties. Higher than expected imports have resulted in higher than expected customs duties, which have to be paid into the Community budget. This, of itself, increases our net payment by some £110 million in 1988-89 rising to £230 million in 1990-91. These extra payments do not give rise to any extra abatement;

(iii) higher payments of VAT and GNP-related contributions. The recent rapid growth of GNP and consumers' expenditure have led us to revise up the forecast of our VAT and GNP payments in future years. Although the additional payments should give rise to extra abatement, they are unlikely to do so until 1990 at the earliest (because of the lags in the abatement arrangements);

(iv) low receipts. Although the projection is based on a stronger £/ecu exchange rate than the PEWP, and we would normally expect this to lead to a higher share of receipts, we are now expecting our receipts share to remain unchanged at a disappointingly low 9 per cent.

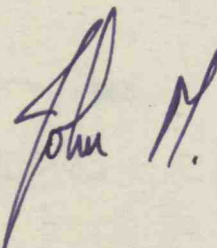
5. You will be aware that the projection of our net payments is extremely uncertain, and that relatively small changes to the timing of our payments to, or receipts from, the budget could lead to significant changes in the profile of the net figures. I am not persuaded, however, that the projection is pessimistic, and believe that we may only store up troubles for ourselves in the future if we were to publish lower figures. I therefore

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think that, despite likely criticism, we should publish the figures contained in the table in paragraph 2 above. We would of course have to explain carefully why the deterioration has occurred. It is possible that, in working out the detailed figures, I may need to modify the published profile slightly.

6 This deterioration is of course unhelpful for the overall Survey arithmetic. While we have had no alternative but to take it into account in recent assessments of the overall position, it must inevitably mean greater restraint on other programmes if we are to achieve our aims.

7 I am copying this minute to Nigel Lawson, Geoffrey Howe, John MacGregor and David Young.

A handwritten signature in blue ink, appearing to read 'John M.', with a stylized flourish.

JOHN MAJOR