

PRIME MINISTERPOLICY UNIT
30 November 1983EUROPEAN COMMUNITY EXPENDITURE PROGRAMMES AND CONTROL OF PUBLIC
EXPENDITURE

The argument for control is an important one to win. The Policy Unit approaches this subject from the viewpoint that much of the expenditure which is, and will increasingly be under dispute - on overseas aid, regional policy, support for R&D, agriculture - has a dubious value, whether dispensed by the community or by Departments. Decades of regional policy have failed to remove regional unemployment differentials and have misdirected resources; support for agricultural investment has led to yet larger surpluses; support for innovation seems to go largely to the larger companies which would probably have undertaken the supported projects anyway (according to a DTI analysis of the Product and Process Development Scheme which came by chance into our hands). The value of aid is also disputed: isn't it even harder to ensure additionality of aided projects in other countries than it is in our own? Expenditures on these policies have as much, if not more, to do with demonstrating Government's concern than with improving performance.

It is essential therefore to support the Treasury view because:

(i) the Community's fields of interest happen, unfortunately, to be those in which public expenditure seems to be of the least proven value. Community involvement is not a reason for allowing the combined national and Community expenditures to increase;

(ii) no convincing arguments have been offered to demonstrate that the Community's preferred programmes are any less effective than those to which Departments "attach importance". Indeed, what evidence have we that our own policies are effective in a real sense?

(iii) Departments are in effect asking that additional Community expenditure in their own policy areas should be at the expense of expenditure in areas in which the Community has no competence, such as health, social security or defence.

The Departments' strong card is that they would be obstructive in Brussels, to the point of frustrating the Government's overall objectives, if non-additionality applied. This is, unfortunately, a real danger: officials will tend to resist threats to their own Departments' expenditure, even if this undermines the Government's overall policy. However, if Cabinet Ministers put this forward as an argument it would amount to a kind of blackmail: "we will behave badly if our expenditure is controlled". You would be entitled to register your indignation if this is what is claimed. You could then make the point that while we want a suitably questioning approach to Community initiatives - no point in signing up on dotty Community schemes merely to reduce our net contributions position - we do not want obstruction, just because Community schemes are different.

In discussion you might press Ministers on why non-additionality should not apply to them. More specifically:

(i) why are they so convinced that Community programmes, though different from our own, would be significantly less effective? The DTI has consistently argued that the ESPRIT programme for information and technology is a sound one which would benefit UK firms. Is it less effective than DTI's own schemes? And would the same be true of the Community's support for small/medium enterprises in declining industrial areas? Why would multilateral aid be less helpful to backward countries than bilateral aid?

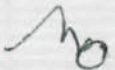
(ii) why should additional Community expenditure in these policy areas be financed by reducing those in, say, health or defence? There is no separate pot of money labelled "general expenditure".

You could aim for a summing up of the meeting along the lines:

(i) it is already our policy to adjust our domestic public expenditure in the light of Community spending. We do so in an informal way. We need now to adopt a more formal procedure, if we are to secure a growing share of Community expenditure and use it to reduce national public expenditure;

(ii) this problem has not been tackled before. Further work is needed to formalise these arrangements, in particular to decide how Community expenditure might be allocated between Departments and whether relief is needed to cope with sudden increases in Community expenditure which are large in relation to departmental budgets, and with programmes which might not be of a kind which Departments are in the habit of supporting;

(iii) this further work needs to be completed as soon as possible, in order that the new system should be in place for the next PES round.


NICHOLAS OWEN

PRIME MINISTER

E(A) DISCUSSION ON EUROPEAN COMMUNITY EXPENDITURE PROGRAMMES AND CONTROL OF UNITED KINGDOM PUBLIC EXPENDITURE

One aspect of the E(A) discussion on European Community Expenditure Programmes concerns the handling of EC Research and Development expenditure in relation to Departmental budgets. A sensible system would:

- (a) contribute to the control of EC expenditure through Departments
 - (i) arguing against adoption of programmes which are of poor technical quality or incompatible with Departmental priorities
 - (ii) arguing in favour of good programmes while keeping in mind the need to limit EC R & D expenditure.

- (b) Provide incentives to maximise UK receipts from approved EC R & D programmes both to public sector and private sector laboratories.

- (c) Make some allowance for Departments which, having argued against adoption of a programme, find their views overruled when the UK line is determined principally by political and diplomatic considerations with respect to the overall EC decision-making process.

2. The present arrangements do not meet these criteria. Departments are insufficiently accountable for EC R & D expenditure and there is often no incentive to maximise UK receipts. Therefore change is needed.

3. However, the Treasury proposals on an attribution system also fail to meet my criteria. The incentives to maximise UK receipts are not there, indeed there are sometimes disincentives. In addition Departments are burdened with a degree of accountability without authority which is inequitable.



4. Departments are proposing that the solution lies in modifying the existing arrangements to move a little way towards Treasury requirements. I cannot support this approach. I think that the Treasury proposal for an attribution system is fundamentally sound but requires significant modifications to meet the criteria given in my first paragraph.

5. I therefore advise that you accept the Treasury proposal for an attribution system for EC R & D expenditure as given in paragraph 15(iii) of the Annex to the Chief Secretary's paper. But you should make clear that the detailed arrangements worked out by officials must meet the legitimate objections from Departments to the proposal in its present form.

6. I am copying this minute to Sir Robert Armstrong.

RBN.

ROBIN B NICHOLSON
Chief Scientific Adviser

Cabinet Office
30 November 1983

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10 DOWNING STREET

(2)

Prime Minister

If you have time before
E(A) you might look at
notes by Policy Unit
and Robin Nicholson.

Both in principle favour
Treasury approach though
both think further detailed
work is needed to refine it.

AT

30/11