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Overtaken and replaced by brief of 20/2

Qz.03581

PRIME MINISTER

Community expenditure programmes and control of United Kingdom public expenditure

(E(A)(84) 12)

Questions at issue

When E(A) had a second reading discussion of this question in December, it instructed officials to pursue the proposals for a "Forward Look" at Community expenditure and to consider ways in which the objective of non-additionality could be achieved for Community expenditure. Following official discussions the paper (E(A)(84) 12) is now submitted by the Chairman of the Steering Committee on European Questions. The paper invites Ministers to take decisions on three issues which will allow a long term and better system for controlling the United Kingdom public expenditure element of Community expenditure. These issues are

- should we establish a co-ordinated "Forward Look" at Community expenditure? There is a unanimous recommendation in favour of this.

- should we continue the existing control arrangements for the United Kingdom public expenditure element of Community expenditure on the structural funds, the agricultural guarantees and on aid. The paper recommends the continuation of these arrangements but two Departments dissent.

- what should be the new control arrangements for the United Kingdom public expenditure element of other Community expenditure, where existing arrangements are unclear or unsatisfactory? Three options are presented for decision by Ministers.

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2. When Ministers have decided on these proposals, the arrangements will be phased in from the beginning of the next United Kingdom Public Expenditure Survey and the Community's draft budget for 1985, which will be presented in the summer of 1984. In the interim the United Kingdom will need to give its view in Brussels before the end of February on the funding of the Community's programme on research and development in information technology (ESPRIT). The paper therefore proposes the line to take on this.

"Forward Look" (paras 3-8 of E(A)(84) 12)

3. The paper indicates unanimous agreement on setting up the "Forward Look" at Community expenditure within the responsibility of a new PESC sub-committee; on the main tasks of the new sub-committee; and on its relationship with existing arrangements for inter-departmental co-ordination of Community matters. Some Departments think that the "Forward Look" should have an even wider role but, if raised, this would best be discussed under point 3 (new arrangements for public expenditure control). Accordingly you may wish to conclude that E(A) endorses officials' recommendations on the establishment of the "Forward Look".

Existing arrangements on the United Kingdom share of Community expenditure (paras 9-11 of E(A)(84) 12)

4. There are already arrangements for ensuring public expenditure control of the United Kingdom share of Community expenditure on the structural funds (such as the Social Fund and the Regional Fund but excluding its non-quota section), agricultural guarantees and overseas aid. The paper recommends in favour of the Treasury's proposal that all these arrangements should continue. There is no disagreement on agriculture. On other items the Department of Trade and Industry dissents because they want their option 2 for the new arrangements to apply to the United Kingdom share of all Community expenditure. This disagreement may be more apparent than real, because the Department of Trade and Industry has been operating without difficulty the existing procedures for the structural funds described in para 10 of the paper and could no doubt continue to do so, whether this is formally described as part of the existing arrangements or part of their

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proposed option 2. The Overseas Development Administration is in disagreement with the Treasury about the continued attribution of Community aid expenditure to the ODA Budget. The Overseas Development Administration argue that they cannot control some increases in Community aid expenditure and that it is wrong that increases in the United Kingdom share of Community aid expenditure should require a corresponding cut in the United Kingdom's bilateral aid. The Treasury argue that the aid budget is a single block of public expenditure: higher expenditure on one action should be matched by savings on others.

5. You may wish to ask the Chancellor of the Exchequer to explain why he sees no need for change in the existing system of public expenditure control of the structural funds and Community aid expenditure. The Secretary of State for Trade and Industry for the structural funds (the Secretaries of State for Northern Ireland, Scotland and Wales and the Secretaries of State for Employment and the Environment also have an interest) and the Foreign and Commonwealth Secretary for the Community aid expenditure will wish to put their objections.

New arrangements on the United Kingdom share of Community expenditure (paras 12-21 of E(A)(84) 12)

6. This is the crux of the problem, although (as para 12 of the paper points out) the economic significance of the expenditure not covered by existing arrangements is very small. The Sub-Committee has three options before it -

(i) option 1 (this is the Treasury option). The broad effect of this option is that the United Kingdom share of all Community expenditure cannot give rise to any increase in United Kingdom public expenditure. The Treasury proposes that, when receipts flow to the public sector, either the existing rules should apply or, in the case of research and development programmes, the departmental budget should be charged with the estimated United Kingdom share of the cost less any receipts accruing to the Department. When receipts flow to the private sector, the Treasury proposes that the departmental budget would have to find savings equal to either the United Kingdom's estimated share of the cost or to the receipts of the United Kingdom private sector, together with any triggering payment. No other Department accepts option 1. Their most strongly held objection relates to Community programmes benefitting the private sector. They do not want to automatically cut their departmental budgets, including domestic programmes to which they attach higher priority, just because the Community sets up or increases a programme benefitting United Kingdom industry or research. They consider that in such cases the United Kingdom should try to get the best both for the departmental and the Community programme and, if public expenditure cuts are needed, they should be directed to the lowest priorities which may be in other sectors;

(ii) option 2 (this is the spending Departments' option, in particular that of the Department of Trade and Industry). The DTI proposes that the control should be only at the overall level of public expenditure. Provision would be made for the United Kingdom share of Community expenditure in a revised PESC Programme 2.7. Increases or new expenditure would be financed first from any savings in the Programme and, failing this, from United Kingdom public expenditure generally. The Treasury considers that this does not offer an improvement in public expenditure control;

(iii) option 3 (this option is intended to avoid some of the disadvantages of options 1 and 2. It is certainly a tighter public expenditure control than option 2 but it does not have the complete automatisity of option 1. We believe that Treasury officials are recommending to the Chancellor of the Exchequer that he could accept it, perhaps with modest changes). This option is based on two principles. First, the United Kingdom public expenditure element of each proposed Community programme would be subject to the same basic PESC procedure and rigour as any other United Kingdom public expenditure: if accepted, the public expenditure

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item would be included in the block programme within PESC Programme 2.7 in the same way as other United Kingdom public expenditure items are included in other block programmes. The United Kingdom share of a Community programme would not require an automatic offsetting reduction elsewhere but would be considered on its merits. Secondly, there would be strict rules (normally requiring an offsetting reduction) if the United Kingdom public expenditure provision for any item in the block PESC programme within Programme 2.7 were exceeded; these rules are set out in para 20(v) (a)-(d). The spending Departments consider these rules for avoiding a net increase in United Kingdom public expenditure above the original provision in the block programme within Programme 2.7 to be too harsh.

7. You may wish to invite the Chancellor of the Exchequer to introduce option 1. The Secretary of State for Trade and Industry will no doubt wish to speak on option 2; the Secretary of State for Energy, the Secretary of State for the Environment and the Secretary of State for Transport have an interest, as also do the Secretaries of State for Northern Ireland, Scotland and Wales and, because of the possible effects on discussions within the Community, the Foreign and Commonwealth Secretary. If no agreement on options 1 or 2 can be reached, you may wish to see whether option 3 can be accepted. When the decision has been taken, it would be sensible for officials to review progress, if necessary, if and when the revised Community financing arrangements now under discussion in the post-Stuttgart negotiations are in place.

ESPRIT

8. It is important that the United Kingdom should be in a position to give its view at the Council of Ministers (Research) on 28 February on the funding of the Community's proposed five year programme on research and development in information technology (ESPRIT). All other member states are expected to be ready to do so. The pilot programme is completed. A specific decision by E(A), consistent with its decision on the United Kingdom share of Community expenditure generally, is now needed. There is no substantive disagreement between Ministers on the value of the

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programme: both the Secretary of State for Trade and Industry and the Chief Scientist consider that it should have priority within the Community's research and development effort. There is a good chance that United Kingdom industry will obtain a disproportionate share of the contracts, as we did on the pilot programme.

9. There are two main points at issue -

(i) should we cut United Kingdom public expenditure in comparable sectors if we agree to the ESPRIT programme?

(ii) can we gain assurances from the Commission that, if the ESPRIT programme is agreed and is given priority, it will be financed within the own resources and within any ceiling on research and development expenditure in the Community? If so, we should be able to achieve reductions in other programmes of lower priority.

10. On point (i) the Chancellor of the Exchequer has asked for offsetting savings on the DTI budget. The Secretary of State for Trade and Industry has refused, with the support of the Foreign and Commonwealth Secretary. Since recent discussions between these Ministers has still failed to resolve this point, this paper proposes a common sense compromise as follows. First, since the 1984 Community budget has been adopted with provision for ESPRIT (because the programme will start slowly, the United Kingdom share of payments will be only about £6 million, without taking account of receipts by United Kingdom industry), the commitments and payments in the 1984 budget should be accepted without any offsetting savings. Secondly, we should accept a five year programme under which the United Kingdom share of the cost should not exceed an average of £18 million a year without taking account of United Kingdom receipts (a Community programme of 700 million ecu over 5 years) and the decision now being made by E(A) on new arrangements for public expenditure control should apply to ESPRIT from 1985. Thirdly, we would require assurances from the Commission on respecting the ceiling on own resources and any ceiling on research and development expenditure in the Community, thus working towards a better system of priorities.

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11. You may wish to invite the Secretary of State for Trade and Industry to speak on ESPRIT and thereafter to invite the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary to give their views.

Conclusion

12. You may wish to conclude, if the Sub-Committee agrees -

(i) that the "Forward Look" should be established on the basis set out in paras 3-8 of E(A)(84) 12;

(ii) that the existing arrangements relating to the United Kingdom share of Community expenditure on agricultural guarantees, structural funds and aid should be unchanged (paras 9-11 of E(A)(84) 12);

(iii) that the new arrangements relating to the United Kingdom share of other Community expenditure should be either options 1, 2 or 3; and that this should be reviewed if and when a revised budgetary system is established as a result of the post-Stuttgart negotiations (paras 12-22 of E(A)(84) 12)

(iv) that we should agree to the five year programme on ESPRIT on the conditions set out in paragraph 24 of E(A)(84) 12.

D F Williamson

D F WILLIAMSON

13 February 1984

cc: Sir Robert Armstrong
Dr Nicholson
Mr Gregson

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NOTE FOR THE RECORD: BUDGETARY IMBALANCES AND THE COST OF ENLARGEMENT

1. Mr Hannay told me that both M. Noel and M. Legras had mentioned during M. Dumas' visit to London that the French were concerned to ensure that the British and the Germans bore their fair share of the cost of enlargement to existing members of the Community. Apparently, Mr. Davignon spoke to the Secretary of State this morning about this as well, implying that it was a point which had been accepted by the Commission.

2. I therefore spoke to Mr Lever. He said that the point had indeed been mentioned in Commission, but no real discussion of it had taken place. (I had the feeling that Mr Tugendhat had not sparked on the point.) I said that it would be a great mistake to allow the issue to be raised. If it came up again in Commission, I hoped that Mr Tugendhat would point out firmly that if a system of thresholds in accordance with relative prosperity was adopted, the UK and Germany would both automatically move up the line when Spain and Portugal joined and their thresholds would therefore be higher.

3. Mr Lever said that people were thinking of something more than that. He imagined that it would be argued that since special financing arrangements would have to be agreed for Spain and Portugal and since their benefits from the CAP would be limited in the early years of transition, there could be some special arrangements among the existing members of the Community for financing the small sum involved (ie no doubt Britain and Germany would contribute their VAT share). I said that if the sum was going to be small, it would be more than covered by the increase in our threshold. I urged him and Mr Tugendhat to gird themselves to try to dispose of the idea when it next surfaced. He did not commit himself but he did agree that he would keep us closely informed.

[signature]

13 February 1984 Michael Butler

cc: Mr Shepherd
Mr Butt
Mr Powell

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A. J.C. 16/2

b.a.

15 February 1984

Dear Michael,

BUDGETARY IMBALANCES AND THE COST OF ENLARGEMENT

Many thanks for copying to me your note of 13 February about your conversation with Lever about sharing the costs of enlargement. The same point has been put separately to both Geoffrey Fitchew and myself by French officials during the past week or so.

2. I think we really must be very robust on this one. Apart from the point you made about the prosperity related threshold, and the fact that we have indicated that we should be prepared to consider a modest ticket moderateur, the French argument is a wholly falacious one which we should despatch to the boundary promptly. The fact is that we start from an inequitable financing base- and far from seeking to avoid our fair share of the costs of enlargement, our efforts are directed towards establishing a fair financing arrangement for the totality of Community expenditure, including enlargement. It is as if we had treated the French to dinner and they then felt hard done by because it was suggested that they might make a generous contribution to the cost of the coffee.

3. I hope, therefore, that if the French or anyone else tries this on again, we can all give it the treatment it deserves.

Yours Ever,
Brian.

J B UNWIN

cc D H A Hannay Esq, CHG, FCO
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