

PRIME MINISTER

EC Expenditure Programmes and UK Public Expenditure Control

I have tried to set down as briefly as possible the main points for the discussion this afternoon.

(i) Departments are agreed on establishment of a Forward Look, backed by a PESC(EC) Committee.

(ii) For existing programmes it is agreed that:

(a) Agriculture stays as it is, i.e., Community expenditure replaces UK expenditure.

(b) Structural funds (for example, regional and social funds) to operate as now on principle of non-additionality, i.e., money received from Brussels by the public sector is not allowed to add to spending in the UK, but is paid into the Consolidated Fund.

(iii) For aid, existing treatment applies principle of attribution, i.e., 20% of Community expenditure on aid is attributed to the aid programme. ODA see the current discussion as an opportunity to secure a change as this review squeezes the bilateral portion of the aid programme. The Treasury wish to maintain the existing treatment, and I suggest you support them.

(iv) For new programmes, in particular R and D, where payments will be flowing to the private sector, the Treasury wanted to attribute 22% of the cost

of the European programme to the Departments programme. This would have meant that establishment of the Esprit programme would have required savings to be found, probably from the Alvey programme.

Departments wanted a system of control on programme 2.7 (net contribution to the EC) excluding agriculture. The UK share of new programmes would be offset within programme 2.7 or, failing that, would become a claim on the Contingency Reserve. The Treasury rejected this because it left them rather than Departmental Ministers with the task of finding the offsetting savings.

- (v) Treasury and Department of Trade and Industry have agreed on a variant of Option 3. Within programme 2.7 there will be a separate block for R and D and industrial support. This is referred to as the Mini Euro Programme. The base line for this is the UK's share of what is provided in the 1984 Community budget. For later years the block will be allowed to increase only as fast as the total of UK public expenditure.

Additional claims on the block will be measured by 22% of any new Community programme less any receipts coming to the public sector which are surrendered to the Consolidated Fund. That amount will then be dealt with in the following sequence:-

- (a) Offsetting savings will be sought within the Mini Euro Programme;
- (b) If savings are not found, the domestic programme of the Department will be scrutinised;
- (c) If no savings are found there, the excess will

be treated as a claim on the Contingency Reserve or, in the PESC Round, as requiring savings from the totality of public expenditure.

I recommend that you endorse these arrangements.

- (vi) The agreement on Esprit is set out in the attached annex which is taken from the paper circulated by the Chancellor and Mr. Tebbit

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21 February, 1984.

ESPRIT

1. The UK should be prepared to agree to the launching of the ESPRIT programme only if there is also agreement on <sup>an</sup> annual total payments ceiling for all Community R & D programmes and on the necessary decisions to cut back commitments on other R & D programmes (see 3 below). The Germans have proposed that this payments ceiling should be fixed at 600 mecus. We should support this figure, but in the last resort be prepared to move to 670 mecu (which is the maximum available within Chapter 70-73 of the 1984 Budget, including some provision within Chapter 100).
2. Within the agreed payments ceiling priority would be given, as proposed by Germany, to ESPRIT, the agreed JRC programme and fusion programme. Expenditure on other R & D programmes would have to be contained within what was left.
3. To ensure that the payments ceiling is observed the size of the Community's other multi-annual R & D programmes may have to be cut back or deferred. Specifically the Commission would have to undertake to hold down commitments on other R & D programmes in 1984 and 1985 to a level which ensured that the 600-670 mecu payments ceiling was respected. The level of the R & D payments ceiling for 1986 and onwards could be reviewed before the end of 1985.
4. No decision to go ahead with the ESPRIT programme until the Commission had produced forward profiles for expenditure on ESPRIT and the other R & D programme for at least 1984 and 1985 showing that they could be accommodated within the 600-670 mecu payments ceiling in those years.

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20 February 1984

PRIME MINISTER

E(A): EUROPEAN COMMUNITY EXPENDITURE AND THE CONTROL OF  
UK PUBLIC EXPENDITURE - RESEARCH AND DEVELOPMENT

The arrangements proposed in the memorandum by the  
Chancellor of Exchequer and the Secretary of State for Trade  
and Industry are satisfactory for Research and Development  
except in one respect.

2. Whilst the third requirement in paragraph 5 properly  
points out the need to allow for public expenditure by the  
EC in assessing the UK's domestic public expenditure programme,  
once this has been settled, it is in the UK's interest to  
maximise receipts to UK laboratories from each EC R & D  
programme rather than seeing these flow to our Continental  
competitors.

3. This will only be achieved if UK laboratories benefit  
from winning EC R & D contracts. Such incentives must be  
part of the detailed arrangements to be worked out by  
officials as per paragraph 25(iv) of E(A)(84) 12.

RBN.

ROBIN NICHOLSON  
Chief Scientific Adviser

cc: Sir Robert Armstrong  
Mr Williamson  
Mr Young

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MR TURNBULL20 February 1984

cc Mr Redwood

EC EXPENDITURE PROGRAMMES AND UK PUBLIC EXPENDITURE CONTROLS


The agreement which has been reached between the Treasury and the DTI looks as good as one could hope for. The original Treasury proposal was too rigid for Departments to accept. The present proposals allow a degree of flexibility but they also force Departments to think about the UK financing share of Community expenditure within their responsibilities at an early stage, to weigh Community programmes against their own, and to negotiate effectively in Brussels. At present Departments have little incentive to do any of these things.

A key feature of the arrangement is that the Euro-PESC programme is based on the 1984 Community budget and allowed to increase only as fast as UK planned public expenditure. This is bound to imply a slower rate of increase than Community expenditures. This means that Departments which wish to make "additional bids" are unlikely to find much slack in the Euro-PESC and will be under pressure, in that event, to make room within their own domestic budgets. We recommend these arrangements.

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*Nicholas Owen*  
NICHOLAS OWEN

  
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MR TURNBULL

E(A) AT 5pm ON 21 FEBRUARY: COMMUNITY EXPENDITURE PROGRAMMES  
AND UNITED KINGDOM PUBLIC EXPENDITURE


--- I attach a revised brief for the Prime Minister, which takes account of the joint memorandum by the Chancellor of the Exchequer and the Secretary of State for Trade and Industry just circulated under cover of John Kerr's letter of 20 February to John Coles and copied to the Private Secretaries of those attending E(A).

*Sophia Lambert*

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20 February 1984

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MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY, SUB-COMMITTEE  
ON ECONOMIC AFFAIRS, 21 FEBRUARY, 5pm

Community expenditure programmes and control of  
United Kingdom public expenditure

Revised brief for the Chairman

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References: E(A)(84) 12 and

Memorandum of 20 February by the Chancellor of the  
Exchequer and the Secretary of State for Trade and  
Industry

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:-

- (i) should we establish a co-ordinated "Forward Look" at Community expenditure? There is a unanimous recommendation in favour of this;
- (ii) 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 dissented;

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- (iii) 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.

2. The memorandum of 20 February circulated jointly by the Chancellor of the Exchequer and the Secretary of State for Trade and Industry proposing arrangements agreed between them should make an agreement in the Sub-Committee much easier. It would be advantageous if the Sub-Committee could endorse, as far as possible, these arrangements. The practical effect on the issues above is:-

- (i) there is an agreement on the "Forward Look" and no problem is foreseen;
- (ii) there is an agreement to continue the existing arrangements on the structural funds and to apply these arrangements also to the non-quota section of the Regional Fund. This means that the only disputed point as regards the existing arrangements is whether to continue those for Community aid;
- (iii) the Chancellor of the Exchequer and the Secretary of State for Trade and Industry have agreed on new arrangements which would apply to the United Kingdom share of other Community expenditure in support of industry, research and infrastructure. These are a modified version of option 3 in E(A)(84) 12. There will be a block programme (a mini-Euro PESC programme) within PESC Programme 2.7. The baseline figures will be those in the Community's 1984 budget, which will rise in later years only in line with the general rate of increase in total United Kingdom planned public expenditure. The details are in Annex A of the joint memorandum by the Chancellor of the Exchequer and the Secretary of State for Trade and Industry.

3. When Ministers have decided on appropriate arrangements, they can 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). E(A)(84) 12 therefore proposes a line to take on this. There is also an agreement between the Chancellor of the Exchequer and the Secretary of State for Trade and Industry on this question. The cost of ESPRIT (United Kingdom share about £18 million a year for 5 years, without taking account of the receipts of United Kingdom industry) would be added to the PESC baseline figures, without of course any double counting because a small element is already included. The United Kingdom would agree to the ESPRIT programme provided that it can be financed within an agreed "financial envelope" for all Community research and development programmes (600-670 million ecu a year in 1984 and 1985), so that the Community genuinely established priorities and, if necessary, cut back in later years the lower priorities.

4. It is recommended that you should deal with the four questions - "Forward Look", existing arrangements, new arrangements and ESPRIT - in that order. It may be possible to conclude at the end of the discussion that there is an overall agreement on the arrangements set out in the joint memorandum of 20 February by the Chancellor of the Exchequer and the Secretary of State for Trade and Industry.

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

5. The paper indicates unanimous agreement on setting up the "Forward Look" at Community expenditure within the responsibility of a new PESC sub-committee ("PESC(EC))"; on the main tasks of the new sub-committee; and on its relationship with existing arrangements for inter-departmental co-ordination of Community matters. It is also proposed in the joint memorandum of 20 February that the new PESC(EC) should have a role in the

new control procedures proposed by the Chancellor of the Exchequer and the Secretary of State for Trade and Industry; this, however, 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".

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

6. 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), 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 dissented because they wanted their original proposal for new arrangements (option 2 in E(A)(84) 12) to apply to the United Kingdom share of all Community expenditure. This disagreement was 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 can continue to do so. This is recognised in the joint memorandum of 20 February from the Chancellor of the Exchequer and the Secretary of State for Trade and Industry, Annex A of which recommends continuing the existing arrangements, including for the non-quota section of the Regional Fund. The Secretary of State for Trade and Industry, however, attaches importance in future years to looking at priorities on all Community expenditure together: this can be done through the "PESC(EC)".

7. 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.

8. 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 Scotland and Wales and Employment, the Ministers of State for Northern Ireland (Mr Butler) and the Environment (Lord Bellwin) also have an interest) and the Foreign and Commonwealth Secretary for the Community aid expenditure will wish to comment.

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

9. This is the crux of the problem, although (as para 12 of E(A)(84) 12 points out) the economic significance of the expenditure not covered by existing arrangements is very small. E(A)(84) 12 sets out three possible options for the Sub-Committee to consider, the first proposed by the Treasury, the second by the Department of Trade and Industry and the third put forward as avoiding some of the disadvantages of both the others. Since, however, the Chancellor of the Exchequer and the Secretary of State for Trade and Industry have now agreed on a modified version of the third option (Annex A of their joint memorandum of 20 February), you are recommended to seek agreement on the basis of that memorandum.

10. The two principles on which the third option was based are as follows. 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 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 rules to be applied if the United Kingdom public expenditure provision for any item in the block PESC programme within Programme 2.7 were exceeded.

11. These principles have been carried into the version set out in Annex A to the joint memorandum of 20 February from the Chancellor of the Exchequer and the Secretary of State for Trade and Industry. More specifically, the memorandum now establishes the baseline figures for the PESC block programme or "mini Euro programme", ie that these figures would be derived from the figures in the 1984 Community budget. It also confirms the recommendation in E(A)(84) 12 that, after the new arrangements have been introduced, officials should review progress, if and when the revised Community financing arrangements now under discussion in the post-Stuttgart negotiations are in place.

12. You may wish to invite the Chancellor of the Exchequer and the Secretary of State for Trade and Industry to present their agreed views. The Secretaries of State for Energy and Transport and the Minister of State for the Environment (Lord Bellwin) have an interest, as also do the Secretaries of State for Scotland and Wales and the Minister of State for Northern Ireland (Mr Butler) and, because of the possible effects on discussions within the Community, the Foreign and Commonwealth Secretary.

(4) ESPRIT

13. 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 the information technologies (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

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now needed. There is no substantive disagreement between Ministers on the value of the 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.

14. The Secretary of State for Trade and Industry and the Chancellor of the Exchequer have agreed on the public expenditure handling of the United Kingdom share of the ESPRIT programme. It is also agreed that we should now accept the 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) but subject to certain important conditions. We would require assurances from the Commission on agreed overall figures for spending on research and development expenditure in the Community (600-670 million ecu a year in 1984 and 1985, with a review thereafter) thus working towards an effective system of priorities.

15. 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

16. 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 (including both the quota and non-quota section of the Regional Fund) and aid should be unchanged (paras 9-11 of E(A)(84) 12);

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- (iii) that the new arrangements relating to the United Kingdom share of other Community expenditure on support of industry, research and development and infrastructure, as defined in the joint memorandum of 20 February by the Chancellor of the Exchequer and the Secretary of State for Trade and Industry, should be adopted and that officials should be instructed to work out the details; and that the arrangements should be reviewed if and when a revised budgetary system is established as a result of the post-Stuttgart negotiations;
  
- (iv) that we should agree to the five year programme on ESPRIT on the conditions set out in the joint memorandum of 20 February by the Chancellor of the Exchequer and the Secretary of State for Trade and Industry.

Cabinet Office

20 February 1984