



FROM: ECONOMIC SECRETARY
DATE: 14 FEBRUARY 1985

PRIME MINISTER

Prime Minister
Here rather complicated steps
are required because there is no
Community Budget for 1985.

Yes no

Agree the steps in
paragraph 8? CDP 15/2

EUROPEAN COMMUNITY'S CASH NEEDS

1. I minuted you on 14 January about the Commission's request to bring forward payment of non VAT Own Resources from February to January, and undertook to notify you if any unusual factors arose with regard to similar requests in future. I am afraid that the questions which have now arisen are rather technical, but they clearly need to be handled carefully in view of the sensitivity of EC budget matters in Parliament.

2. We have now received a request for an advance of the March own resources into February. Subject to the usual detailed scrutiny I propose to agree to that. The advance will be met from the Contingencies Fund, and repayment made through a supplementary Estimate in the normal way. The Commission's figures, however, make it clear that we shall be faced with a succession of requests for advances of own resources in coming months. Moreover, they may seek to use the provisions in Article 12(2) of Regulation 2891 for overdraft facilities. I have therefore considered how we should respond to these developments, bearing in mind the need to ensure that UK recipients of Community payments continue to receive this money without undue delay.

Overdraft facilities

3. The advance of the March own resources into February will still leave a major problem. The precariousness of the Commission's

cash position is such that they intend to utilise their right to ask for overdrafts on national accounts. Unlike the request for advances, requests for overdraft facilities under Article 12(2) impose undoubted obligations - chargeable to the Consolidated Fund - and Member States have no discretion about accepting them if justified. The procedure for overdraft facilities within the budget (in this case, within the "provisional twelfths" arrangement, in the absence of a budget for 1985) has not previously been used, but we do not dispute the method nor the potential need. We are still probing the facts, and we have a number of procedural matters to clear. When we have the Commission's answers I intend to consult the Solicitor General. If the Commission's cash position turns out to be as serious as they claim, and if they answer our procedural points, we may be faced with a demand for the operation of the facility within the next few days. If we were satisfied that the request is justified, I would of course inform the House by means of a Written Answer.

Advance of April's Own Resources

4. Looking ahead there are two further problems with advances. The Commission will almost certainly request the advance of April own resources into March. That would bring into 1984/85 some £140 million of expenditure from 1985/86. However, total payments to the Community in 1984/85 are likely to be lower than we had last estimated and the outturn would still be within the figure in the White Paper. Moreover, reducing the calls on 1985/86 would in itself be useful. The Chief Secretary would therefore be content to agree with the change.

5. Because of the intervening financial year end, however, the timing of this particular advance will require a change in the procedures from those we have used up to now in making advances. Hitherto the practice has been to make the advance from the Contingencies Fund and to provide cover for it through a Supplementary Estimate after the event. In the present case that is impractical. We could only take a special late supplementary

estimate in 1984/85 after payment on 20 March by suspending Standing Orders. In the immediate aftermath of the Budget, it is clear that there would be great problems in such a course, which could not be followed without a debate. On the other hand, making an advance from the Contingencies Fund in 1984/85, and repaying it from a 1985/86 estimate would be inconsistent with the rules of annuality in our own supply procedures. I therefore conclude that it will be necessary to take contingent provision in the final batch of 1984/85 Supplementaries, which will be presented on 28 February.

6. It will be important not to give the Commission the impression that this request will automatically be met; and we must be able to reassure the House of our policy of scrutinising each request rigorously. However, we can justify the Estimate on the grounds that we currently expect to receive a request for this advance of own resources and it is therefore proper to take provision for it; but the extent to which the supplementary provision is actually drawn on would depend upon the Commission's making and justifying the request.

Later Months' Advances

7. Looking forward to 1985/86, I foresee similar problems recurring. Until a proper 1985 EC Budget is established the Commission will face continuing cash difficulties. Whilst we shall continue to scrutinise each request for advances on its merits, I think it would be proper to take some provision now in 1985/86 Main Estimates. In view of the present deadlock over the 1985 Budget, there is a strong probability that we shall need to make advances up to and including July. I therefore intend to seek provision on that basis within the main Estimates presented at Budget time.

Summary

8. I should be grateful for your agreement that we should: (i) lay a Supplementary 1984/85 Estimate this month to cover the likely advance of April own resources into March; (ii) provide for advances

of own resources in the months up to July in 1985/86 main Estimates;
and (iii) respond as suggested above if an Article 12(2) overdraft
is requested.

9. I am copying this minute to members of OD(E) and L Committee
and to Sir Robert Armstrong.

Is

IAN STEWART

14 February 1985

15 FEB 1985

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CONDENSER

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10 DOWNING STREET

OD(E)	L	R M
FCO		
HMT	LPS	F. Sec,
DTI	LPC	HMT
MAFF	LC	
LO	S/S	Scotland
Mr. Rifkind	S/S	Wales
CO	(AG)	<i>CDL</i>
	LA	<i>C.G. Adams</i>
	Parl Sec,	HMT
	(Mr. Rifkind)	
	Mr. Shaw,	HO

From the Private Secretary

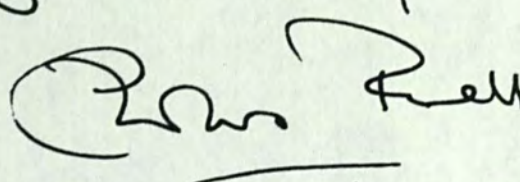
18 February, 1985

Dear Adrian

EUROPEAN COMMUNITY'S CASH NEEDS

The Prime Minister has considered the Economic Secretary's minute of 14 February about the European Community's cash needs. She agrees to the steps proposed in paragraph 8 of that minute.

I am sending a copy of this letter to the Private Secretaries to Members of OD(E) and L Committees, and to Richard Hatfield (Cabinet Office).

Yours sincerely


(C.D. POWELL)

A. Ellis, Esq.,
Office of the Economic Secretary,
HM Treasury

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