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~~Prime Minister~~

Qz.04259

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MR POWELL

EUROPEAN COMMISSION REQUEST FOR OVERDRAFTS

--- I attach, in agreement with the Treasury, the note which you requested for the Prime Minister's questions tomorrow.

D F Williamson

D F WILLIAMSON

27 February 1985

EUROPEAN COMMISSION REQUEST FOR OVERDRAFTS: NOTE FOR
PRIME MINISTER'S QUESTIONS, 28 FEBRUARY

1. The Commission is empowered by law to request overdrafts from member states when the cash available is insufficient for its requirements. Member states are obliged to meet such requests. The Commission has just had recourse to this facility; an overdraft of £14 million was provided by the United Kingdom on Monday 25 February and a further £4.5 million will be made available today (27 February). These overdrafts will be recovered almost immediately from the next payment of Own Resources into the EEC No. 1 Account - on Friday 1 March.

2. The Commission may overdraw only within the limit of Own Resources available to the Community for the year in question. We cannot tell whether there will be any overdrawings in future months. It is probable, however, that, until a proper 1985 Budget is established, there will be some requests for overdrafts. Whilst the use of the facility will not add to public expenditure overall in 1985, an overdraft, if any, outstanding at 31 March would add to public expenditure for 1984-85 by bringing forward expenditure from 1985-86.

3. Use of this facility is distinct from the advances of Own Resources. The Commission requested that non-VAT Own Resources due in February should be paid in January and those due in March should be paid in February. It is likely that they will ask for the payment in March of the sums due in April. Supplementary provision has been sought for this in Estimates to be published on 28 February. We expect that, even with the advance of the April payment into March, outturn on programme 2.7 (net payments to the European Community) is likely to be within the published figures.

4. Since overdrafts and advances apply only within the existing Own Resources limit for 1985, they are quite distinct from either the United Kingdom's abatements or the issue of additional finance for the Community for 1985 or any general increase in Own Resources. They are a means of helping to alleviate the

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Commission's short term cash flow difficulties. At present these are severe because, under the "provisional twelfths" regime which applies in the absence of a 1985 budget, the monthly payments of VAT by member states to the Community are limited to one twelfth of the 1984 levels whilst there is a seasonal surge in agricultural payments.