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Prime Minister  
Prospect of further  
trouble over the

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FROM: Minister of State

DATE: 12 September 1985

Community budget.

CDD 13/9.

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PRIME MINISTER

COMMUNITY BUDGET FOR 1986: BUDGET COUNCIL, 17-18 SEPTEMBER 1985

The Budget Council meets in Luxembourg on 17-18 September for its first reading of the 1986 Community Budget. This minute outlines the approach which I propose to take.

2. The 1986 budget will be more than usually important in two respects. It will cover Spain and Portugal for the first time; and it will be the first to be covered by the budget discipline agreement of December 1984 in whose adoption UK Ministers played such a key role. In accordance with that agreement, the ECOFIN Council adopted in July a reference framework for the 1986 budget. This provided for agricultural guarantee expenditure to be contained within the agreed financial guideline and for other expenditure, including non-obligatory expenditure, to be contained within the maximum rate of increase of 7.1 per cent. The ECOFIN Council's conclusions noted, however, that provision for enlargement and the so-called 'cost of the past' (the overhang of commitments from previous years) would need to be considered during the budgetary process.

3. My key objective at the Council will be to make the budget discipline agreement and the reference framework stick, in the sense of establishing a draft budget which is as close as possible to the reference framework figures.

4. So far as agricultural guarantee expenditure is concerned, the Commission's proposals for the existing 10 member states are within the financial guideline and the reference framework. I propose nevertheless to argue for some savings, notably deletion of a proposed provision of 423 mecu for stock depreciation.

5. As to enlargement, the Commission has proposed additional agricultural guarantee expenditure for Spain and Portugal, outside



the guideline, of <sup>570</sup>~~750~~ mecu. This figure accounts for less than half of the net own resources revenues which Spain and Portugal will be providing and does not appear open to serious challenge. I propose therefore to agree to it on the basis that the Council must take an early opportunity to extend the existing financial guideline to cover the Community of 12.

6. The Commission has proposed non-obligatory expenditure in Spain and Portugal of some 540 mecu. This too is less than half the own resources revenues which the two countries will be contributing, and I see no advantage in contesting the figure. The transitional arrangements for Spain and Portugal envisaged that Spain should be in broad budgetary balance, and Portugal a small net beneficiary, over the next few years.

7. The major difficulty in the Commission's proposals relates to the so-called 'cost of the past'. The Commission argues that the Community has no option but to spend 4.4 billion ecus during 1986 to discharge a massive overhang of commitments entered into in previous years. It will be possible to discharge a substantial amount of commitments within the reference framework figures. But the Commission argues that in the Regional Development and Social Funds extra provision of some 1350 mecu will be needed over and above the normal 'maximum rate' increase of 7.1 per cent and the 540 mecu proposed for Spain and Portugal. The Commission's proposals, if accepted, would involve expanding these Funds by something of the order of 60 per cent and 70 per cent respectively (see the accompanying summary table). These proposals, taken as a whole, would bring total Community expenditure in the first year of the new 1.4 per cent VAT own resources ceiling to within a bare 750 mecu of that ceiling.

8. Acceptance of the Commission's proposals on the commitments overhang would make a mockery of budget discipline and the reference framework. It would reward the Community institutions for past irresponsibility by extra spending now. The maximum rate provisions, moreover, would ensure that this massive increase of some 50 per cent in the total level of provision for non-obligatory expenditure would be carried forward to future years.



9. I propose to resist most strongly any additional provision, over and above the normal maximum rate increase, for this purpose. Specifically I propose:

- to question whether the problem is, in reality, anything like as serious as the Commission suggests;
- to call for a full review by the Commission of all commitments outstanding;
- to argue that, to the extent that the Commission can establish the existence and scale of the problem, the solution must anyway lie in reducing new commitments next year (and adjusting payment profiles) and not in the provision of vast extra sums of money; and
- to argue strongly in the meantime for a reduction, or at least a standstill, in commitments next year, though it could prove necessary to join a qualified majority for a limited increase if the alternative would be an even larger increase.

I recognise that any restraint in Regional and Social Fund commitments and payments will be unwelcome to public sector beneficiaries in this country, including local authorities. However, our priority must be to make a reality of budget discipline.

10. If the UK succeeds in holding this line it would be clear that the Council's draft budget respected budget discipline and the reference framework for the existing 10 member states. The addition of a limited amount of expenditure for enlargement would be covered by the additional own resources revenues brought to the Community by Spain and Portugal.

11. Looking further ahead, there is likely to be continuing trouble throughout the autumn over the 'cost of the past'. Whatever the Council decides, the Assembly will almost certainly exercise its right to raise commitment appropriations by the maximum rate of 7.1 per cent. In that event, the UK and other like-minded countries may have to say to the Commission that, whatever commitment appropriations the Assembly may write into



the budget, the Commission must not enter into commitments which it will not be able to honour within the payments appropriations, likely to be available within the framework of the budget discipline agreement.

12. I will of course report to you on the outcome of the Council.

13. I am copying this minute to Geoffrey Howe, Leon Brittan, George Younger, Nicholas Edwards, Tom King, David Young, Michael Jopling, Kenneth Baker and Sir Robert Armstrong.

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1986 PRELIMINARY DRAFT BUDGET SUMMARY

(CA = commitment appropriations

PA = payments appropriations

<u>Expenditure</u>	<u>1985</u>		<u>1986</u>		<u>% change</u>	
	<u>CA</u>	<u>PA</u>	<u>CA</u>	<u>PA</u>	<u>CA</u>	<u>PA</u>
	mecu					
1. Agricultural guarantee	9673	9673	10509	10509	8.64	8.64
2. Agricultural guarantee	10282	10282	10503	10503	2.15	2.15
3. Agricultural guidance	713	688	1020	946	43.06	37.50
4. Fisheries policy	150	105	253	209	68.67	99.05
5. Regional policy	2588	1698	3844	2867	48.53	68.85
6. Social policy	2229	1625	2574	2523	15.48	55.26
7. Energy, research, industry etc	1028	700	970	763	-5.64	9.0
8. Repayments and aid to member states	1267	1267	3293	3293	159.91	159.91
9. Aid	1284	1039	1253	1320	-2.41	27.05
10 Reserves	69	23	472	450	584.06	1856.5
Commission administration	885	885	1098	1098	24.07	24.07
Total Commission	30168	27985	35789	34481	18.63	23.21
Other institutions	448	448	570	570	27.23	27.23
Total including other institutions	30616	28433	36359	35051	18.76	23.28

Memorandum items

FEOGA guarantee expenditure

Total	19955	19955	21012	21012	+5.3	+5.3
Total covered by guideline	N/A	N/A	20445	20445		
Guideline limit	N/A	N/A	20619	20619		

Other obligatory expenditure

Total*	2366	2345	4801	5017	+103	+114
Total covered by reference framework	N/A	N/A	4600	3000		
Reference framework limit			2558	2536		

Non-obligatory expenditure

Total	8295	6133	10547	9022	+27.1	+47.1
Reference framework/ maximum rate limit	N/A	N/A	8782	6537		
Own resources limit (1.4%)	N/A	N/A	-	35800		
UK VAT abatement	-	1000	-	1400		+40

\*Includes refunds for Spain and Portugal







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10 DOWNING STREET

*From the Private Secretary*

15 September 1985

**COMMUNITY BUDGET FOR 1986:  
BUDGET COUNCIL, 17/18 SEPTEMBER 1985**

The Prime Minister has noted the minute by your Minister of State setting out the approach which he intends to take when the Budget Council meets in Luxembourg on 17/18 September for its first reading of the 1986 Community Budget.

The Prime Minister is content with what is proposed.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office), John Mogg (Department of Trade and Industry), John Graham (Scottish Office), Colin Williams (Welsh Office), Jim Daniell (Northern Ireland Office), Leigh Lewis (Department of Employment), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food), Robin Young (Department of the Environment) and Michael Stark (Cabinet Office).

(Charles Powell)

Mike Norgrove, Esq.,  
H.M. Treasury.

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