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Treasury Chambers, Parliament Street, SW1P 3AG

30 September 1985

Dear David,

1986 COMMUNITY BUDGET: EUROPEAN SOCIAL FUND

Thank you for your letter of 18 September. I am grateful for your agreement that a firm line was appropriate at the first Budget Council on 17 September. Given the commitment of the United Kingdom government and of all members of the Council to the budget discipline conclusions last December, and to the 1986 reference framework agreed in July, I am sure that our line was the correct one.

You will know that the Council established a draft budget with 2183 mecus commitment appropriations and 1447 mecus payment appropriations for the European Social Fund. The figures were arrived at on the basis of the 1985 totals to which an addition within the maximum rate of 7.1 per cent was made to allow for enlargement. The Parliament is almost certain to use at least some of its margin of 3.55 per cent (half the maximum rate) to increase these figures further. There is no likelihood of the 1986 budget as finally adopted containing lower appropriations for the ESF than in the draft budget, and indeed there may well be additions.

As I said in my minute of 12 September to the Prime Minister, I realise that restraint in Social Fund appropriations will be unwelcome to public sector beneficiaries in this country. However, the United Kingdom has been very successful in attracting significant support from the Social Fund in recent years, and I doubt whether, on any view, we could expect to maintain the same level in the future. After enlargement the United Kingdom's position as a net recipient from the Fund will be eroded rapidly. We are already close to a position where the United Kingdom Exchequer will become a net contributor and, because of the Fontainebleau system, the effect of any slight overall benefit from the Fund will be, in large measure, offset by a reduction in our VAT abatement the following year. For all these reasons we must be very cautious about agreeing to future increases to the Fund.

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There is, of course, no question of proper commitments already made not being honoured, and it will be a priority to ensure that outstanding commitments are paid to the United Kingdom as speedily as possible. We shall continue to argue that, to the extent that the Commission has insufficient payment appropriations, the correct response should be to cut back on new commitments. Beyond that, within the constraints imposed by budget discipline, the Social Fund should continue to be a United Kingdom priority area for increased spending.

Our officials have remained closely in touch on the likely level of United Kingdom receipts in 1986 and the timing of future payments. I hope that they will continue to do so in the run-up to the next Budget Council.

I do understand the points which you make, but our highest priority must be to make a reality of budget discipline.

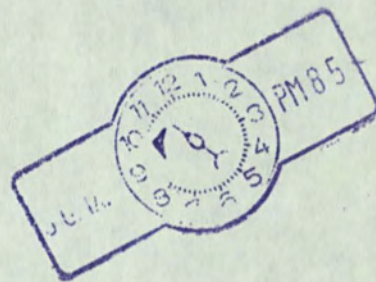
I am copying this correspondence to the Prime Minister, Geoffrey Howe, Leon Brittan, George Younger, Nicholas Edwards, Tom King, Michael Jopling, Kenneth Baker and Sir Robert Armstrong.

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COMMUNITY BUDGET
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3 October 1985

1986 COMMUNITY BUDGET: EUROPEAN SOCIAL FUND

Thank you for your letter of 30 September.

While I agree with most of your analysis about our future prospects for Social Fund assistance, I hope that the UK will continue to be a net recipient from the Fund after enlargement. But whatever the net position of either the UK as a whole or the Exchequer, we should be doing what we can to tilt the balance of the Community budget towards areas where we do best, so I welcome your assurance that the Social Fund should be a priority area for increased spending. While we do not have precise figures, it is apparent that the Social Fund is, in relative terms, a better investment for us than most other major heads of expenditure.

It seems sensible too that we should do what we can to make sure that payments arising from commitments made in the last three years, when we have done extremely well from the Social Fund, should come back to the Exchequer as quickly as possible. I am therefore a little concerned that the draft budget established by the Council would be likely to result in a further increase in the overhang of commitments. So I hope that your priority in the further discussions on the budget will be to direct any increase in payment appropriations towards the Social Fund, given that it will not be possible to reduce commitment appropriations.

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I have asked my officials to keep in close touch with yours in the run-up to the next Budget Council.

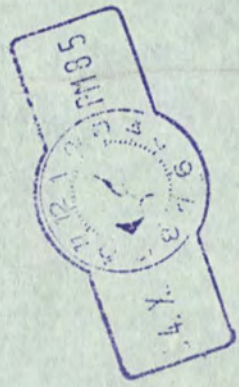
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Community Budget - Developments in
European Community.

European Policy Part 30.





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cc PS / *Paymaster General*
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 Mr. *Dave*
 Mr. *Bayliss*
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 Mr. *Giblett*
 Mr. *Arwin*
18/9/85

Ian Gow Esq MP
 Minister of State
 HM Treasury
 Great George Street
 London SW1

ABPM
 18 September 1985

Yes Ian,

1986 COMMUNITY BUDGET COUNCIL (17-18 SEPTEMBER 1985)

A copy of your letter of 12 September to the Prime Minister reached me on 16 September.

I believe that there is a strong case for allowing an increase in excess of the maximum rate in the case of the European Social Fund payments budget. We have no reason to question the Commission's assessment of the problem of the 'weight of the past', at least as far as the European Social Fund is concerned. As members of the Council we allowed Fund allocations to increase, and there is a resulting payments obligation. The UK was allocated more than any other member state from the Social Fund in 1983 and 1984. A large proportion of the payments resulting from these allocations (about 28%) is due to the UK. Most of this will come to the Exchequer. We are therefore considerable net beneficiaries from this part of the Community budget.

If there are serious restraints on the Community's ability to pay its commitments to employment and training schemes in 1986, this will not only damage credibility in a sensitive area where the Community is making a positive contribution. It will affect the estimates in the Public Expenditure White Paper, where Community receipts are counted as offsetting the cost of Manpower Services Commission programmes. About £100 million is due for this in 1986 on final payments from 1984 allocations alone.

I accept that at this stage in the negotiations it may be appropriate to take a strong line across the board on budget restraint. However, I would not want to see this rigidly maintained at the expense of the UK's real interest. Some



relaxation of the payments budget to cope with the problem need not have long term effects if the allocations budget is reasonably restrained.

I hope that you will take account of these points in the continuing negotiations.

cc Prime Minister

FCO

DTI

Handwritten signature
: *Law*

Eulo for: Budget A 30.