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Community Expenditure in the United Kingdom

You may find it helpful to have this note on the extent to which existing Community expenditure in the United Kingdom affects current public expenditure decisions. This is relevant to finding ways of increasing Community expenditure which will reduce rather than increase United Kingdom public expenditure and which will not lead to greater Community control over it.

2. From the attached summary prepared by the Treasury you will see that our main receipts in 1980 are divided between agriculture (accounting for almost two-thirds of the total), the Regional Fund (approximately 18 per cent) and the Social Fund (11 per cent). The following paragraphs consider for each of the main categories how the existence of Community policies affects United Kingdom expenditure.

FEOGA Guarantee Expenditure

3. This expenditure (estimated at £454 million in 1980) constitutes the largest single block of Community expenditure in the United Kingdom. In part its purpose is market management, but its main importance is that it provides a source of income support for farmers, mainly through its effect of contributing to the Community policy of maintaining farm support prices above world price levels for the foodstuffs covered by the CAP. The categories of expenditure qualifying for Community support (which is uniformly 100 per cent throughout FEOGA Guarantee expenditure) are decided by the Council and laid down in Community regulations. Since these involve a degree of compromise, it is possible that the pattern of support (e.g. more for milk producers and less for hill farmers) is not what we would choose ourselves; but there is no reason to suppose that an equivalent domestic policy would involve a significantly different amount on public expenditure in the United Kingdom. The total amount of support for producers is to some degree within our control through the level of the Green Pound and through various national measures (liquid milk price, hill farm subsidies, capital grants etc.). A switch in policy from the market support

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system of the CAP to deficiency payments would involve more public expenditure than now to give the same amount of income support, because part of that support is at present borne by consumers, who pay prices above world market levels.

FEOGA Guidance Section

4. This £37 million of public expenditure financed by the Community will stem mainly from national agricultural structures measures qualifying for support under the relevant Community Directives. The four main structural Directives for 1972 and 1975 simply provide for the partial reimbursement from FEOGA of expenditure under national schemes, although there is an element of additionality under the 1977 Regulation. While there is no reason to suppose that public expenditure on agricultural structures would be any lower in the absence of Community-financed structures expenditure, an increase in this expenditure sufficient to make a significant dent in our Community Budget deficit could lead to the support of projects which would not otherwise be undertaken - especially since the United Kingdom already has a highly capital-intensive farm structure. This is one reason why we discouraged the Commission from pursuing their ideas of last November that agricultural structure might be a suitable area for increased Community expenditure.

Regional Fund

5. The £145 million of Regional Fund expenditure expected in 1980 will be wholly in support of existing national regional expenditure, and no additionality is involved. Community expenditure in the United Kingdom could be increased if the rate of Community contribution was raised e. g. to 70 per cent but a significant increase which did not involve additionality would have to cover public capital expenditure programmes on regional infrastructure rather than projects which would qualify under the current Regional Fund Regulation.

Social Fund

6. This £84 million of expenditure will be fully absorbed within existing programmes and there is no additionality. But to increase our receipts under the Social Fund's detailed guidelines and rules sufficiently would almost certainly involve putting forward projects which would not otherwise have been undertaken.

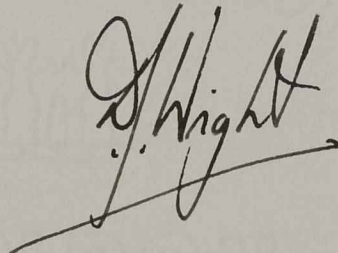
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Northern Ireland

7. This £33 million block of expenditure will be credited to existing public expenditure programmes in Northern Ireland and there is no additionality. We have suggested that the Community could substantially increase expenditure in the United Kingdom by paying a high rate of support for our capital expenditure on infrastructure and a somewhat lower rate on other expenditure in Northern Ireland. But this could not be done under existing Community funds.

Community-financed Expenditure on Research

8. The Community is expected to finance about £8.5 million of our public expenditure on research in 1980 by means of payments to United Kingdom research establishments. Not all the projects involved would have been undertaken in the absence of Community support. This expenditure could not be a source of major expansion of United Kingdom receipts, partly because it does not accrue to the Exchequer.



(D. J. Wright)

5th February 1980

to  
Summary table of replies/the extent of EEC impact on UK Policies

Fund	Amount in 1980	Claim Procedure	Vetting Procedure	Additionality	Policy influence <sup>3</sup>
Social Fund	£84m	All applications channelled through DE Recipients Home Office, NIO, LA, NI, ITB's. <i>Accepted target for UK Share 25%</i>	Detailed guidelines agreed by Member States	No, insofar <sup>1</sup> as support replaces preferred policies any-way	Claimed that expenditure plans have been unaffected by Community spending. Expenditure by non-Govt. Dept. Could rise as a result of EEC funds but does not affect PSBR.
Regional Fund	£145m	Payments & claims Govt. Depts. only. Quota of 27% allocation for 95% fund.	Projects funded, not programmes	No <sup>2</sup> additionality	No policy influence with present size of fund
Energy, Transport, & Industry Research Support	£8.5m	Claims and payments direct to Private and Public research organisations and Nationalised Ind.	Payment contingent on research report and scientific vetting. A case for assistance has to be made	Full additionality in general except for NI Fusion research obtains £3 out of every £10 from Commission	No policy influence claimed mainly because schemes involved are small. Private bodies and NI may well change behaviour as a result of EEC support
Northern Ireland	£33m	Northern Ireland Office claims payments through Northern Ireland Office but end up in Northern Ireland departments	As in Regional Fund and Social Fund	No <sup>2</sup> additionality	No policy influence

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<u>FEOGA</u>					
1 Guarantee	£454m	IBAP claims; individuals receive payments	No vetting. Audits are rigorous	No technical <sup>4</sup> additionality	All schemes are 100% EEC financed
2. Guidance	£37m	Agricultural depts claim	No vetting	Some additionality	FHDS capital grants scheme introduced and geared to receipts under farm modernisation directive
a) capital grant					
b) individual projects		Individuals apply but applications & payments are channelled through Agricultural dept.	Proposals judged on individual merit	Some additionality	Schemes are only partly EEC financed. To qualify scheme must be first undertaken by national governments and therefore there need be no additionality if schemes only constituted preferred policies

1. The objectives of the Social Fund are to promote additional spending in the agreed policy areas. The criteria for fund priorities include additionality and especial priorities are given to new policy areas. This suggests that problems of additionality are inherent in the Social Fund but they may be more or less dormant at present levels of spending.
2. At present size of regional fund no problems of additionality arise.
3. While respondents have suggested that there is little direct policy influence - nevertheless the possibility of EEC receipts has been included in the arguments about which expenditure areas should be contracted and which expanded or left alone.
4. Separate PESC provisions already made for IBAP expenditure though financed by EEC. However, increased receipts from the EEC in respect of Guarantee can only be obtained by raising IBAP expenditure so that the PSBR would not be reduced.