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Gen. H, P-9,  
Public Expenditure



Prime Minister

(2)

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

PRIME MINISTER

*We must stick firmly  
to substituted expenditure.  
No 'additional'  
spending.*

ADDITIONALITY AND THE USE OF COMMUNITY FUNDS

We need to settle how we are going to handle, in relation to our public expenditure programmes, proposals for expenditure financed by the European Community under the Article 235 arrangements which are part of the Budgetary agreement reached in Brussels on 30th May.

2. As you said in the House, it is vital that the increased receipts should go to reducing expenditure, the PSBR and interest rates. We had already said in the public expenditure White Paper that the savings in public expenditure there announced will be increased by the reduction in the EC contribution. We must be sure that this is indeed the result. (This was discussed in my letter of 8th February to OD(E) and my letter of 16th April about briefing MEPs.)

3. Accordingly, Departments should wherever possible follow the existing practice for the Regional Fund, under which grants passed on to spending authorities for infrastructure projects are used in substitution for the borrowing or other finance which would otherwise have been necessary.

4. If however, exceptionally, a Department wishes to propose additional expenditure associated with additional EC receipts, I suggest that the Minister responsible should put forward a bid for the expenditure to be financed from the contingency reserve. Treasury Ministers,

/or in cases



or in cases of disagreement the Cabinet, can then consider whether to accept the claim, given the other prospective calls on the reserve. Such bids must be kept to the absolute minimum.

5. Expenditure within the UK on agricultural price support under the CAP is a separate matter. Any prospective increase will continue to be considered in conjunction with the associated effects on our Budgetary contribution as well as the receipts.

6. The 1980-81 expenditure programmes and contingency reserve are firm, and so my proposal would apply immediately. It is likely however that additional expenditure will be very small in the current year, and should be capable of being absorbed in Departments' existing programmes.

7. For the later years we shall be able, in the 1980 public expenditure survey, to take account of any proposals to increase particular programmes. But when we have taken our decisions in the survey, my proposal would apply to any further bids for additional expenditure.

8. I shall assume agreement unless any of my colleagues wish us to discuss the matter, in which case I should be grateful to hear within a couple of weeks.

9. I am sending copies of this minute to members of the Cabinet, Norman Fowler and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

(G.H.)

17 June, 1980



17 JUN 1968

W.M.

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