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PRIME MINISTER

MINISTERIAL GROUP ON PUBLIC EXPENDITURE (MISC 106)  
FOREIGN AND COMMONWEALTH OFFICE PROGRAMMES

As you know, MISC 106 have been meeting under my chairmanship to discuss the public expenditure programmes on which the Chief Secretary, Treasury has not reached agreement bilaterally with the spending Ministers concerned. We have had two meetings with the Foreign and Commonwealth Secretary to discuss the programmes for which he is responsible: the Overseas Development Administration (mainly the aid programme); and the Foreign and Commonwealth Office (Diplomatic Wing). Unfortunately, we have not been able to reach agreement with him. In view of the political considerations involved, I think it would be helpful if the Foreign and Commonwealth Secretary and I could discuss the position with you.

BACKGROUND

ODA

2. The baseline for the programme is as follows (all figures in £ million):

1985-86	1986-87	1987-88
1263.8	1298.6	1320.4

The position reached after the bilateral discussions was that bids and savings (resulting partly from a carry over of aid programme expenditure from 1983-84 and partly from other factors) had been agreed totalling:

+ 6.2	- 2.2	- 2.9
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3. The Foreign and Commonwealth Secretary sought further changes of:

0	+ 58	+ 115
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mainly to restore part of the cut-backs in bilateral aid which have resulted partly from the real reduction in the aid programme since 1979 and partly from the increase in the proportion of the programme taken up by multilateral aid.

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4. The Chief Secretary sought reductions of £60 million in each year as a contribution to the achievement of the overall planning totals agreed by the Cabinet; he considered that the reductions could be achieved without detriment to existing commitments.

5. After an initial discussion with MISC 106, the Foreign and Commonwealth Secretary reconsidered his bid. He pointed out to us that the aid programme was under great pressure from his colleagues. You yourself, for example, were committed to Mrs Gandhi to use your best endeavours to maintain bilateral aid to India at £110 million a year in 1983-84 prices for the foreseeable future. If the baseline for the programme remained unchanged, then bilateral programmes would decline by 1988 by 10 per cent in real terms on top of the 30 per cent since 1979. He therefore revised his overall bid to:

+ 6.2    + 25    + 35

This would be sufficient to maintain our bilateral aid programmes at their 1984-85 level.

Diplomatic Wing

6. The baseline for this programme is as follows:

601.7    602.1    617.9

In the bilateral discussions bids and savings (resulting from agreed projects to rationalise the overseas estate) had been agreed totalling:

- 4.4    + 1.9    + 2.2

7. The Foreign and Commonwealth Secretary sought further changes of:

+ 46.0    + 55.6    + 59.1

Details are given in the Annex to this minute.



8. The Chief Secretary sought reductions of:

- 10

- 15

- 20

He considered that, to the extent that the additions identified by the Foreign and Commonwealth Secretary were unavoidable, they should be offset by savings elsewhere. He further considered that sufficient savings were available to achieve the net reductions he proposed without any significant damage to our foreign policy.

9. After his initial discussion with MISC 106, the Foreign and Commonwealth Secretary had a further look at his bids. He decided that a number of items could be absorbed or postponed, though with great difficulty, and that he could accordingly reduce his bids to a net total of:

+ 33.5

+ 42.8

+ 43.6

compared with those in paragraph 7 above. He considered that he could not absorb these sums within his baseline without sharply reducing functions or geographical coverage.

#### VIEWS OF MISC 106

10. MISC 106 were grateful to the Foreign and Commonwealth Secretary for the thoroughness with which he had re-examined his programmes. They also recognised the political difficulty of imposing reductions in the services provided by the BBC and the British Council. On the other hand, they felt that a number of the bids put forward by the Foreign and Commonwealth Secretary, such as provision to cover the Property Repayment Services, reflected problems which all departments had to cope with. Similarly, most departments had to cope with difficulties arising from single very large capital projects, such as the Moscow Embassy.

11. Most important, however, was the general political background. The Cabinet have set MISC 106 the objective of formulating recommendations which will allow the agreed planning totals to be held. In order to achieve this we are having to consider deep cuts in

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extremely sensitive domestic programmes, such as health and social security, and housing. I can readily expand on this if you wish.

Against this background, the Group did not think that it would be justifiable to recommend any increase over the combined ODA and FCO baseline: indeed, some members of the Group argued in favour of recommending net reductions. The Group recognised that the implications of recommending no increase in baseline provision might be a reduction in the aid programme in order to accommodate inescapable increases in expenditure on the Diplomatic Wing, and that this would not be politically easy. Nevertheless, they were clear that the difficulties of this course were less than those that would follow from conceding an increase in the size of the two programmes together.

#### FUTURE ACTION

12. For reasons which the Group understood, the Foreign and Commonwealth Secretary was unable to accept this view. Given the importance of the issues, I think it would be helpful if you could discuss them as soon as possible with the Foreign and Commonwealth Secretary, the Chief Secretary and myself.

13. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the members of MISC 106, and to Sir Robert Armstrong.

*WJW*

15 October 1984

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## OUTSTANDING ISSUES

(a) Expenditure

The Foreign Secretary seeks the following additions:-

Overseas price adjustment since October 1983	16.0	16.0	16.0
Sterling shortfall Oct 82-Sept 83	7.5	7.7	7.9
Property repayment services	3.0	3.8	4.3
FOLIOS "electronic office" project	1.9	3.2	3.3
Moscow/London Embassy sites	0.4	2.0	4.1
Security works overseas	1.1	1.4	1.6
BBC External Services:			
(a) Pay award and improved conditions of service	2.1	2.7	3.1
(b) Bringing forward modernisation of monitoring service and audibility programme and reinstating Caribbean service	3.6	5.6	2.6
(c) New electronic distribution system at Bush House	0.6	1.7	2.5
British Council:			
(a) Risen costs, including rent	3.0	3.0	3.1
[(b) ODA share of risen costs	1.7	1.7	1.7]*
(c) Increased activities	3.1	5.2	7.7
Military training in Caribbean	1.3	0.8	0.2
Increase in overseas estate purchase programme	2.0	2.0	1.9
Additional costs of overseas student scheme	0.9	1.0	1.2
Sundry small one-off items	1.5	1.5	1.6
TOTAL	49.7	59.3	62.8
<u>Less</u> Sundry offsetting savings	-3.7	-3.7	-3.7
NET TOTAL	46.0	55.6	59.1

\* This is ODA's share of the British Council's costs. The Treasury position is that this should be met from the aid programme as part of ODA's general financing of the British Council; and is not therefore a legitimate bid on the FCO (Other) programme.