



FCS/84/277

LORD PRESIDENT OF THE COUNCIL

Public Expenditure - FCO Programmes

1. Following the meeting of MISC 106 on 15 October, I have had a further look at my bids. I fully recognise the formidable difficulty of your task. But I fear I must sustain my attempt to enlarge still further the sympathy with which you all listened to my case on Monday: as I said then, the non-military parts of our expenditure to protect British interests abroad is small but vital. Since 1979, our aid programme has declined 14% in real terms and overseas representation 4%, while Defence has increased by 26%.

ODA

2. (a) There is, I think, no dispute about the £6.3m carry-over from 1983/84 to 1985/86 on the basis of the absolute assurance given earlier by the Chief Secretary; this should be added to the baseline figure.

(b) For this year I am prepared to withdraw the £10m for Commonwealth Development Corporation in 1987/88 while we continue to explore all means, including legislation, whereby its borrowing powers could be increased without counting as public expenditure. We are in touch with the Treasury about this and I am grateful for the Chief Secretary's support in this endeavour. I reserve the right to reinstate this bid next year if our ideas on this prove impracticable.

(c) The aid programme is under great pressure from colleagues. The Prime Minister wants us to do more in particular cases, and has a commitment to Mrs Gandhi to use her best endeavours to maintain bilateral aid to India at £110 million per year in 1983/84 prices for the foreseeable future. The Chancellor wants to support the better multilateral institutions. This was reflected in the declaration issued after the London Economic Summit. At that meeting and at the Commonwealth Finance Ministers meeting in September, all agreed that



donors should maintain or increase aid flows.

(d) If my baseline remains unchanged, by 1988 we as a Government will see our bilateral programmes decline a further 10% in real terms on top of the 30% since 1979. This would cause formidable political difficulties. It is difficult to see how we can do less than maintain these programmes at their 1984/85 level. This would need £25m in 1986/87 and £35m in 1987/88.

3. My proposal for aid in the three PES years is therefore:-

£6.2m	£25m	£35m
-------	------	------

(£6.3m less a small saving already agreed)

FCO (Diplomatic Wing)

4. I take as agreed the overseas estate rationalisation (mainly in Kuala Lumpur) recorded in MISC 106(84)2

-4.4	+1.9	+2.2
------	------	------

5. The Government continues to maintain a global foreign policy. The success of our economic policy has given us an extensive export trade and overseas investment portfolio which we must protect. Full advantage has been taken of the Financial Management Initiative to exercise tighter control of this Department's costs. Janet Young and I have brought our previous departmental experience to bear on this. The MISC 106 minutes misleadingly mention a £5m contingency reserve: this was created in 1983/84 by economies within my agreed provision but has now been reduced to £1.3m to help cope with the falling pound. The 7½% staff margin is sorely needed for language training and travel but successive crises have reduced it to 5.2%.

6. The following bids are essential merely to maintain the present level of diplomatic and consular services - against annual increases in demand averaging over 10% from MPs, businessmen, travellers in both directions and the Government itself.



Revised Economic Assumptions

(a)	<u>Overseas price adjustment</u>	16.0	16.0	16.0
(b)	<u>Sterling shortfall to Sept 83</u>	7.5	7.7	7.9
(c)	<u>British Council risen costs</u>	3.0	3.0	3.1

Inescapable Cost Increases

(d)	<u>BBC</u> (i) pay	2.1	2.7	3.1
	(ii) audibility	2.2	5.7	2.3
(e)	<u>Property Repayment Services</u>	3.0	3.8	4.3

Enforced Requirements

(f)	<u>Overseas Estate</u>			
	(i) Moscow	0.4	2.0	4.1
	(ii) Security	1.1	1.4	1.6
(g)	<u>FOLIOS electronic office</u>	1.9	3.2	3.3
(h)	<u>One-off items</u>	1.5	1.5	1.6

This is a quotation from the No 10 letter of 23 July - attached.

7. On (a) and (b), the Prime Minister has said "Treasury should recognise the special circumstances of the Foreign Office; additional bids as a result of exchange rate changes should be treated as reflecting revised economic assumptions, rather than policy changes. This treatment should not prejudice finding some offsetting savings if possible". With a new offer I mention below, I can produce £5.2m savings in the first year. 40% of FCO costs are overseas, compared to 15% for MOD. Sterling's index has fallen from 92.5 to 75.2 since October 1982 (18.7%). I would, of course, be content (as Peter Carrington was between 1979 and 1982) to see any underspend on my provision, provided the latter is realistically set, returned to the Treasury if the Pound strengthens sufficiently.

(c) The British Council suffered an 18% volume cut (19% staff cut) between 1979/80 and 1983/84. Risen costs in the final year would have left the Council entering 1984/85 £4m short. In May the Prime Minister said "£4m



should be made available to the British Council in 1984/85 to cover the increased rent of Spring Gardens and the increase in risen costs". (I can absorb the ODA 'share' which roughly corresponds to the rent). Unless we carry the Prime Minister's wishes forward into the PES period, we risk the same sort of parliamentary row as in 1980, when we were obliged to accept the Blaker volume-planning guarantee. Most "banana skins" - perish the metaphor - are unforeseen. I can see no case for throwing one under our feet with our eyes open.

(d) The BBC threatens an even larger banana-skin. Following our defeat in the House of Lords in 1981 we agreed a much-needed capital programme to improve audibility. My bid is mainly to catch up with slippage on a transmitter station at Bearley held up by a planning enquiry; the resulting underspends in two years have benefited Treasury and the BBC's supporters expect these to be made up.

On pay the real control is the Licence Fee. External Services are only 1/10th of BBC. I have set up a Review to check efficiency and seek solutions to the perennial pay shortfall: to disallow this bid would frustrate BBC's implementation of the Review and mean cutting 7 language services - with another disproportionately huge parliamentary row, in both Houses.

(e) In the Property Repayment Services PES transfer from PSA, most Departments had swings as well as roundabouts, but FCO lost on all counts. For fuel, the transfer was calculated by square metres, but two of our buildings are BBC transmitter stations with exceptional electricity bills. Our Government-owned buildings were deemed to be in the lowest "rent" category, which was immediately subject to a 19% "rent" increase. The sum allotted for specialised buildings was one-third of the outstanding bills inherited from PSA. The original injustice increases each year. There is no appeal against PSA's arbitrary rent increases which represent PES transfers to PSA.



(f) The Overseas Estate consists of 4,000 office and residential units in 140 countries. Its £18m capital subhead must cover minor works (eg generators, structural repairs and security works) and major works or purchases often forced on us by foreign landlords or governments (eg Riyadh). Much accommodation is inadequate or under-maintained, eg Kuwait, Warsaw, Ankara, Tokyo, Muscat, Cairo, where long-deferred works must start soon.

At £42m Moscow is a huge project well beyond the provision inherited from PSA. FCO can find £9m and perhaps a further £12m if Treasury can agree to asset recycling with full end-year flexibility. It will take 10 years, so postponing other items a year or two would not suffice. And postponements will raise my rent and running costs bill which in my 1984/85 Estimates agreed with Treasury is £6.3m above the PES baseline, mainly because of sterling.

Security works provide protection against criminal violence (which in 98 countries is higher than in UK) and terrorism by IRA, Libyans, Shia Muslims, local guerrillas etc. 21 Embassies have been attacked and 4 British and 2 local staff killed in recent years. The Middle East (especially Beirut), Afghanistan, Jamaica and Nigeria are particularly dangerous. Between two and six violent incidents affect members of the Diplomatic Service each year; these include rapes, assaults and muggings. The US have just allocated \$366 million for protective works - we are spending £1.7m this year.

(g) The FOLIOS electronic office bid was incorrectly described in the minutes as withdrawn - perhaps a confusion with the BBC electronic distribution system. FOLIOS will make a major contribution in savings in costs and manpower and to increased efficiency under the FMI. It will use modern technology to enable some 20 million documents a year to reach those who are to deal with them expeditiously. Without it, FCO's operations would fall increasingly behind the standard expected in the Western World.



(h) One-off Items 1.5 1.5 1.6

Following the PES Guidelines about priorities and precise output measurement, I made several detailed bids for inescapable new requirements. These include the UK's EC Presidency, Commonwealth Finance Ministers and Australian Bicentenary. At Treasury's request I aggregated them and indeed rounded the total down.

8. I have thus agreed to absorb or postpone, with great difficulty:-

BBC Monitoring Service modernisation
 Caribbean Service
 New electronic distribution system
 All British Council increased activities
 ODA's "share" of British Council risen costs
 Military training in Caribbean
 Increased Overseas Estate purchase
 Additional costs of overseas students.

9. In addition I will look for further offsetting savings on my Other External Relations programme (UN subscriptions etc) of £1.5m in 1985/86 and £0.5m in 1986/87.

10. Thus my bids total	38.7	47.0	47.3
From this can be deducted offsetting savings			
(i) already in MISC 106(84)2	-3.7	-3.7	-3.7
(ii) the new UN proposal			
(see paragraph 9)	-1.5	-0.5	
Leaving a net total of	33.5	42.8	43.6

11. Only by sharply reducing functions or geographical coverage - which would require collective policy decisions - could I absorb these sums within FCO's narrow baseline.

12. I realise that this may strike you as a disappointing analysis. But the fact is that over recent years all our programmes have been closely analysed, and tightly managed,



which is why we can cost and itemise our bids so precisely. What we are left with are the minimum components of those non-military overseas services that are indispensable for a country, which still has substantial and worldwide commercial interests and political interests. On this basis, I have been able to prune our original bids - and frankly I do not see how we could do more - to:

ODA	6.2	25.0	35.0
FCO	33.5	42.8	43.6
	—	—	—
	39.7	67.8	78.6
	—	—	—

Compared with:

the figures placed before you last week of:

52.2 111.4 171.2

and original bids of:

62.1 146.1 231.7

13. I am copying this letter to the Lord Privy Seal, the Home Secretary, the Chief Secretary to the Treasury, the Secretary of State for Scotland and Sir Robert Armstrong.

GH

(GEOFFREY HOWE)

(Approved by Sir Geoffrey Howe, and signed in his absence.)

Foreign and Commonwealth Office

22 October 1984

DEMANDS ON FCO RESOURCES

DIPLOMATIC WING

	<u>1968</u>	<u>1984</u>	<u>1988</u>	<u>% Change</u>
FCO Staff	8140	6722	6372	-22
Overseas Posts	243	213		-17
Countries covered	136	164		+21

Commercial Work

	<u>1980</u>	<u>1983</u>	<u>% Change</u>
Market Information Enquiries	42,849	63,481	+48
Firms in outward trade missions	4,909	7,038	+43
British Business Visitors	65,199	77,065	+18

Consular Work

	<u>1968</u>	<u>1979</u>	<u>1983/84</u>	<u>% Change</u>
Britons travelling abroad	5.4m	15.5m	21m	+289
Passport issue overseas	151,933	211,969	217,719	+ 40

Parliamentary Work

	<u>1982/83</u>	<u>1983/84</u>	<u>% Change</u>
No of PQs	1474	2434	+65
No of Debates	30	42	+40
Briefs for PM's Questions	200	317	+59
Days spent abroad by Committees	89(1980)	149	+73

AID WING

	<u>1979/80</u>	<u>84/85</u>	<u>85/86</u>	<u>86/87</u>	<u>87/88</u>	<u>88/89</u>
Net Aid Programme - £m cash	790.1	1098.0	1131.9	1167.5	1196.7	-
Staff	2285	1756	1565	1545	1525	1500

EXPENDITURE (£million net, constant 1984/85 prices)

	<u>1978/79</u>	<u>1984/85</u>	<u>% Change</u>
Aid	1283	1100	- 14
Overseas Representation	343	330	- 4
All FCO Programmes	1978	1835	- 7
Defence			+ 26
Social Security			+ 29
Agriculture			+ 40