

Subject

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cc:

MISC 106: LPO

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10 DOWNING STREET

From the Private Secretary

31 October 1984

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bcc: J Redwood

Dear Janet,

FCO Expenditure

The Prime Minister held a meeting this evening to discuss FCO expenditure. Present were the Lord President, Foreign Secretary, Chancellor of the Exchequer, Chief Secretary and Mr. Gregson.

The Lord President reported on the outcome of the discussions in MISC 106. The group had recognised the difficulties facing the Foreign Secretary but against the background of public expenditure as a whole and the difficulties which were having to be taken on the other domestic programmes, the group did not feel it could recommend any increase over the combined base line for ODA and FCO.

The Foreign Secretary set out what would be involved in meeting the MISC 106 recommendations. The aid budget had suffered a substantial reduction in real terms and the bilateral component even more so. There were substantial amendments e.g. to India. In addition a number of political commitments e.g. Grenada and the Falklands had been added recently. If further cuts were made the Government would have no margin in the bilateral aid programme to respond to new policy demands.

The Prime Minister commented that public expenditure as a whole had risen by around 8 per cent under this Government. The fact that programmes such as defence and social security had increased substantially more meant that other programmes had to be held back. The combined programme of £1.8b. was large enough to accommodate the additional demands being made upon it. The Foreign Secretary said the problems facing the diplomatic wing were particularly acute and some of the issues e.g. the British Council and the BBC were highly political. The demand for FCO services was rising rapidly. In his view the FCO

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programme should receive compensation from the Treasury when the exchange rate fell and should yield up savings when the exchange rate rose. The Prime Minister accepted that UK diplomatic staff abroad should be well housed. The Chief Secretary accepted that, in principle, it was difficult for the FCO programme to bear the brunt of exchange rate movements but in a year such as this one when the public expenditure position was particularly acute he had to ask for additional costs to be absorbed.

The Foreign Secretary said the additional cost of exchange rate movements after allowing for the savings he was offering was £18m. This should be added to the combined base line on the understanding that if the exchange rate rose the benefit should be returned to the Treasury. The Chief Secretary suggested that the combined programmes be held at base line on the understanding that the Foreign Secretary would be able to retain the benefit of a strengthening in the exchange rate and would be free to apply such savings wherever he wished within the combined programme. After further discussion the Foreign Secretary agreed to accept the Chief Secretary's formulation.

Summing up the discussion, the Prime Minister said that on the understandings offered by the Chief Secretary, the Foreign Secretary's combined programme would be reported to Cabinet as being agreed at base line.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office), to the Private Secretaries to other members of MISC 106 and to Richard Hatfield (Cabinet Office).

*Your sincerely
Andrew Turnbull*

Andrew Turnbull

Miss Janet Lewis-Jones
Home Office

Land Presidents office.