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FCS/90/099

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CHIEF SECRETARY

FCO Diplomatic Wing: Potential Reserve Claims

1. Your letter of 23 April noted my readiness to try to cope this year without further calls on the Reserve, but did not give me the assurance I need; namely, that if known and future calls on Diplomatic Wing resources cannot be met from savings on programmes which may emerge during the year, any excess on inescapable items will be met centrally. This is the arrangement we came to last year. It is essential, for the good conduct of business, that I have such an assurance this year too.
2. Traditionally, as you know, the Diplomatic Wing has worked to a lean budget, incorporating a small unallocated provision (representing in this financial year about 0.1% of running costs and 1.8% of programme funds) to cope with minor unexpected requirements, on the understanding that the costs of any significant new foreign policy commitments are met from the Reserve. This arrangement recognises that in foreign affairs we are often at the mercy of external events which cannot be foreseen or budgeted for. The alternative, a large contingency provision which might or might not be spent, would represent a bad way to control public expenditure. FCO calls on the Reserve have historically been small in terms of public expenditure. But a clear understanding between us is essential if the system is to work.

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3. For 1990-91, I can certainly meet from my unallocated provision the extra costs of conferences that I mentioned in my minute of 9 April, though it leaves me very short at the beginning of the year. But I see no prospect of finding more than a small part of the additional expenditure on military aid to Namibia, our contribution to ONUCA, and the £5 million for the Tai a Chau project in Hong Kong for which we had provision in 1989/90 but which we were unable to spend because of the Hong Kong Government's delay in placing the contract.

4. Since my minute, two new requirements have arisen. The unexpected NATO Summit in London in July could cost up to £3 million. If the expense is to fall on the FCO rather than on the Cabinet Office, I shall need new money: certainly, I have no provision for it. Secondly, the UN Secretary General has appealed for voluntary contributions for the International Support and Verification Commission in Central America (CIAV), a body set up to facilitate the disbanding of insurgent groups in Central America - in the first instance, the Contras. The success of the operation will be crucial to the fate of Mrs Chamorro's government in Nicaragua, to whom the Prime Minister has expressed strong support in public and in private. We cannot credibly refuse to pay part of the costs. We expect the Americans and other leading States all to contribute. Our share on the normal scale would be of the order of £2 million. With these two items, my identifiable extra commitments to date (listed at annex) could be as much as £15 million in this financial year.

5. I have looked hard at the scope for cuts in existing Diplomatic Wing activities. This is extremely difficult at a time when world events are placing an increasing

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burden on my Department. We are already squeezing running costs activities and the capital programme in order to cope with inflation. Most of my programme expenditure is politically sensitive. We have no choice but to pay our subscription to international organisations. We cannot cut the grants to the British Council and the World Service. My small programmes for military aid and scholarships are committed in advance and have little potential for savings, though the potential for damaging our relations with recipient countries is large.

6. I am prepared, as we agreed originally, to do my best to find the funds for the programme of military aid for Namibia, on the understanding that to the extent I can demonstrate I am unable to do so, you will accept a claim on the Reserve. But it is quite unrealistic to expect me to be able to find enough savings to meet the cost of our contribution to ONUCA, the first instalment on the Tai a Chau project, the cost of the NATO Summit and our contribution to the CIAV. There is a small windfall saving on our provision for UNAVEM which can be offset against these extra costs; but in effect I am asking you to agree a claim on the Reserve of up to £15.17 million, on the understanding that I will do my best to identify savings to meet the cost of military assistance to Namibia (£2.94 million).

7. In your letter you mentioned that officials had been in touch about rephrasing the expenditure on Vietnamese boat people. As my officials have explained, although some rephrasing is possible, the total commitment for the financial year remains at £15.7 million.

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8. I am copying this minute to the Prime Minister.

A handwritten signature in dark ink, appearing to be 'DH', written in a cursive style.

(DOUGLAS HURD)

Foreign and Commonwealth Office
10 May 1990

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ANNEX

	£m
Firm extra commitments	
Vietnamese Boat People, slippage of expenditure from 1989/90	5.0
ONUCA, UK contribution for 1990/91 - minimum	3.0
Namibia, military assistance	<u>2.94</u>
	10.94
 New commitments:	
NATO summit	approximately 3.0
Contribution to CIAV	approximately <u>2.0</u>
	15.94
Against which can be offset windfall saving on UNAVEM contribution	<u>0.77</u>
	<u>£15.17</u> =====

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Douglas Hurd CBE MP
Secretary of State for Foreign Affairs
Foreign & Commonwealth Office
King Charles Street
London
SW1A 2AH

CID/4/4

23rd.
April 1990

Dear Sir

FCO, DIPLOMATIC WING: POTENTIAL RESERVE CLAIMS

Thank you for your minute of ~~9~~ April. *Will request if required*

2 As you know from our Cabinet discussion, the 1990-91 public expenditure Reserve is already substantially accounted for, so we must all take as many steps as possible to live within existing expenditure provision. The costs of military training in Namibia, and the net costs of other unexpected requirements, together totalling some £7.5 million, represent after all less than 1 per cent of your total Diplomatic Wing programme. Quite apart from expenditure on Eastern Europe, I have already agreed to Reserve claims totalling £15.4 million for Colombia, the Caribbean Dependent Territories and Vietnamese Boat People expenditure. On the latter, my officials have asked yours to examine the possibility of re-phasing expenditure to keep the £5 million you mention within the existing planned total for Vietnamese Boat People expenditure in 1990-91.

3 I am grateful therefore for your undertaking to do all you can to keep expenditure within the existing plans for the year and to absorb any additional requirements.

4 I am copying this letter to the Prime Minister, David Waddington, Tom King, and Sir Robin Butler.

NORMAN LAMONT