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1. *As Attached*
2. *Prime Minister* 2

*No need for you to
reply. The ball is
now in FCO's court.*

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

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PRIME MINISTER

CIVIL SERVICE VOTE: CASH LIMITS: FCO, PASSPORT OFFICE
AND THE BRITISH COUNCIL

I have seen the recent correspondence on these subjects starting with Peter Carrington's two minutes of 12th March to you, and his further minute of 26th February to Paul Channon.

2. I am sure Paul is right in arguing that neither the FCO nor the Passport Office should be exempted from the 2½ per cent reduction in manpower costs. We must keep exemptions to the barest minimum. If we accepted Peter's arguments other colleagues would promptly advance equally good cases. I do not go along with his thesis that an expansion of diplomatic effort and activity is more fitting for a country in our present position than the converse. Surely that effort and activity must be commensurate and compatible with our economic performance - and must not over-reach the resources at our disposal? And the first essential must be for us to be seen to be getting the economy right.

3. It is my firm belief that the FCO, like other departments, can find these savings without damage to our essential interests. Some of these savings will accrue as integration of the FCO and ODA "wings" of the department gets under way - particularly through getting rid of duplication and overlap.

4. On the separate issue of the Passport Office, I will say at the moment only that I agree with Paul Channon that to provide a given number of extra staff to meet a given

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increase in demand would tend to ossify present procedures, and inhibit economies of scale; and that the 2½ per cent rule should apply, to whatever staffing level is necessary, as a means of improving productivity. I am considering the points you made about the accounting arrangements and will write again later about this.

5. As to the British Council, I see no case for special treatment. Our decision to reduce the Council's budget by £3.9 million, staged over 3 years, was a compromise. (I personally remain convinced that a further £4 million could be saved by selective cuts, particularly in Council activities in Western Europe and the English-Speaking world.) Moreover, we agreed that the Council's staffing standards and structure must be reviewed. Many of us believe that their establishment has been somewhat lavish. The reduction of over 500 posts in 1980-81 (to which Peter Carrington refers) will be met almost entirely from vacant posts which had been included in the Council's estimates.

6. I am sure that the Council can find a saving of £0.8 million, out of a total budget of £41 million, without the dire consequences which they predict. I note Michael Jopling's assessment of the possible consequences if the Council Board were to resign. We must guard against such extreme reactions by putting the squeeze in perspective to their total Council budget, and explaining that they are being treated on all fours with the rest of the public service.

7. I am copying this to Peter Carrington, Paul Channon, and Sir Robert Armstrong.

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

(G.H.)

20 March, 1980

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