

Subject as marked



10 DOWNING STREET

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20 November 1984

From the Private Secretary

PUBLIC EXPENDITURE SURVEY: CONSEQUENCES FOR FCO
PROGRAMME

The Prime Minister held a meeting this morning to discuss the FCO programme. She said there could be no question of re-opening the programme or publishing a higher figure. This was agreed. The Prime Minister said that, given the pressures which had developed, the Government no longer had any option but to hold the aid component at baseline. She believed that the Foreign and Commonwealth Secretary could, nevertheless, keep to the combined baseline through economies on the diplomatic wing and through allowance for short-fall in the pick-up of aid which could, later in the year, be vired to the diplomatic wing.

The Foreign and Commonwealth Secretary argued that the basis on which his programme had been settled had now changed. It had been expected that some savings could be made in the aid budget but that option was no longer available given the change in the political climate. With the combined programme and the aid component held at baseline the short-fall on the diplomatic wing would be £33 million. He had identified further savings of £13 million. The Chancellor had offered to round up the programme from £1,865 million to the published figure of £1,870 million, producing a further £5 million. He proposed that the remaining gap of £14-15 million could be bridged by allowing CDC to establish an overseas subsidiary whose borrowing and lending abroad would be excluded from public expenditure and

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the PSBR. This was an option which he had discussed earlier in the PES round with the Chief Secretary. At that stage Departmental lawyers had advised that primary legislation would be required though both he and the Chief Secretary were not convinced by this. They believed that if this course were followed the Lord Privy Seal would be prepared to authorise the introduction of a short Bill.

The Chancellor said he could further increase the programme to £1,874 million which would still be consistent with the published rounded figure of £1,870 million. With the savings of £13 million offered by the Foreign and Commonwealth Secretary, the gap would be narrowed to £11 million which could be bridged by savings on the diplomatic wing such as postponing the Folios project by a year and by budgeting for a short-fall in the aid programme. (The Foreign and Commonwealth Secretary argued that the Folios project was well under way and was designed to secure significant manpower savings. It would therefore be foolish to postpone it). The Chancellor strongly opposed legislation to create an overseas subsidiary of CDC. This would be seen immediately as a manipulation of the public expenditure figures and would undermine the credibility of the Treasury's position.

Summing up the discussion, the Prime Minister said she was opposed to the CDC proposal, though did not rule it out for a later year. She believed that the aid budget should be published at base line and that the gap could be covered by further savings on the diplomatic wing and by allowance for short-fall on take-up of the aid programme. For future years she strongly urged that the UK withdraw from UNESCO. The Foreign and Commonwealth Secretary and the Chancellor

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were asked to continue their discussion to resolve or narrow their remaining differences, only returning to her in the last resort.

I am copying this letter to David Peretz (H.M. Treasury).

ANDREW TURNBULL

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Foreign and Commonwealth Office.