



10 DOWNING STREET

We should
consider the
aid increase
in conjunction

with
DIT's wishes
of his responsibility
because of DIT
not

Prime Minister

I am in touch

regularly with Robin

Butler about expenditure

on security. I suspect
something can be worked
out.

Ken will want to focus
on the passages on
aid expenditure, where to
foreign security passages
on increase.
anwards.

Para. 14
CDP 3075.



CONFIDENTIAL

FCS/86/147

THE CHIEF SECRETARY OF THE TREASURY

Public Expenditure Survey - FCO Programmes

1. In accordance with your guidelines I have scrutinised the programmes of the two wings of the FCO for the coming three years. Rather than troubling you with some possible suggestions for expansion, which would certainly yield worthwhile returns, I have decided to concentrate on the practical strength of our foreign policy and aid effort.

See para 14.
2. There are only two areas where I believe the political imperatives require us to make a modest increase in resources. The first is the Aid Programme. Our decision last year to check, and marginally to reverse, the decline in the aid programme was a well-judged response to the huge growth in people's interest in the plight of the world's poorer countries. The Geldof factor continues to grow in strength. More and more people have become involved in the work of the voluntary organisations, and will be expecting a matching response from Government.

See para 5.
3. The second area is the security of those whom we employ to forward our interests overseas. The rising tide of international terrorism, and our leading role in combatting this, has sharply increased risks to Government representatives and property. Failure to provide enhanced protection would expose us to severe criticism.

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CONFIDENTIAL

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1. ~~COP - to see~~
2. ~~Prime Minister 2~~

CCBS
JW
30/5.



4. Before coming to the detail, I should like to make one other general point. The new policy of control by running cost limits has shown itself to be a useful innovation - and makes me reasonably confident of finding efficiency savings to achieve my targets and to help bridge the gap between the 2½% cash uplift factor and UK cost and pay increases. The resulting increase in flexibility in deployment of Diplomatic Service manpower will help us to keep pace with growing (and changing) demands for FCO services from public, Parliament and Ministerial colleagues; although this means that I shall have to forego some of the staff savings envisaged in 1983, I shall still be able to live within the prescribed financial limits.

DIPLOMATIC WING

5. The baseline in the three Survey years is (£ million):-

	<u>1987/8</u>	<u>1988/9</u>	<u>1989/90</u>
My only bids are:-	660	693	711
<u>Revised Economic Assumptions</u>			
Overseas Price Movements	-1.5	-1.6	-1.6
<u>Changed Operating Environment</u>			
Security	9.2	9.4	10.2
<u>Other</u>			
Secret Whitehall-wide Project		0.1	1.0
PSA underfunding	1.3	1.0	0.8

In the accompanying letter my Principal Finance Officer is providing the necessary supporting detail and noting other potential developments which, if they materialise, may need to be considered.



6. The figure for Overseas Price Movements has been calculated by officials on the agreed basis. It is at present negative (because of favourable exchange rate movements) but will be recalculated on 30 September in accordance with past practice.

Security

7. The threat of terrorism and other forms of violence against those who represent Britain overseas is growing sharply. In the past two years three officers (two British Council, one Diplomatic Service) have been assassinated and a number injured. Since the US attack on Libya, there have been (excluding hoaxes) 55 recorded threats to our posts. Some have been quite specific, for example in Sudan where we have sent a Royal Military Police close protection team. The Residence in West Beirut has been badly damaged. Libya has representatives in 54 countries throughout the world; the threat is therefore widespread, and not confined to the immediate trouble spots. This is in addition to the high rate of violent crime in many countries, particularly in Africa and the Caribbean, where we have had to provide safe havens and watchmen to prevent staff being attacked in their own houses.

8. I have withdrawn security PES bids in each of the last three Surveys and have devoted some £2 million a year from offsetting savings and improved efficiency to increase security expenditure. I have also made a £2.1 million adjustment between ODA and FCO (Diplomatic Wing) programmes, which I have subtracted from my bid as you requested in correspondence resting with your letter of 14 January. The 1985 Efficiency Scrutiny recommended that between £30 and £40 million needed to be spent on security over the coming years on Diplomatic Service posts. The sums I am seeking also include an element for the British

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Council whose staff are often vulnerable to attack. My plans are to strengthen physical and technical protection where the violent threat is highest by providing more local guards, alarm systems, radio communications, closed circuit TV and various physical barriers. We must also provide more armoured vehicles for Heads of Mission and move to new premises for about 12 of our more vulnerable offices such as Damascus and Kuwait.

9. At home we are rightly strengthening the resources available to the police to fight crime and terrorism. Other Foreign Services, including the French and Italians, have considerably increased their security expenditure recently. The US State Department are planning to spend \$4 billion over the next 5 years. I am satisfied that the extra expenditure which I propose, averaging less than £10 million a year, is the least that is consistent with our assessment of the risks, our obligations to staff and our commitment to Parliament. If circumstances worsen we may need to improve protection yet further.

Secret Whitehall-wide project and PSA underfunding

10. Officials are in touch about the highly classified new information technology project which affects various Whitehall Departments. They are also discussing the FCO's specific requirements now that Departments rather than PSA itself are to have financial responsibility for certain accommodation work. I fully support this process of devolution from PSA to Departments, but as I said in my minute to you of 23 December 1985 the civil estate is underfunded and Departments will be unable to undertake this extra work without an adequate transfer of funds.

Manpower and Running Costs

11. I welcome the new emphasis on running cost limits as a control mechanism. I envisage no increase in my net running costs apart from a small element of my security



bid and any adjustments agreed to cover new work on electoral registration overseas. I suggest that our officials should agree revised gross totals in the light of the September calculation of Overseas Price Movements and any increases in fees which may be made.

12. I recognise the continuing importance of manpower control, as emphasised in your minute to the Prime Minister of 17 February. However the target I agreed in 1983 to reduce staff by 350 (5.2%) by 1 April 1988 needs re-examination in the light of the growing demand for FCO services. The number of British business visitors using our services per man year of staff is increasing by 4% annually and the consular case load and work on immigration control are also increasing. I am switching more resources into narcotics control and action to deal with terrorism. Information technology is a good example of a field where an increase in staff (in FCO's case 37 in the last four years) is creating running cost savings; but net staff savings will not come through until 3-4 years from now.

13. We have contracted out 140 jobs and saved a net 64 from inspections and post closures but have had to create 55 new slots to deal with growing demands around the world. After examining carefully the scope for further reductions I conclude that the target for staff savings by 1 April 1988 should be adjusted to 220 instead of 350.

AID PROGRAMME

14. The baseline for the net Aid Programme is (£ million):-

	<u>1987/8</u>	<u>1988/9</u>	<u>1989/90</u>
	1230	1269	1301
My bid is for	30	65	110

/15.



15. It was right to cut back aid in the period when we were laying the foundations for our own economic recovery. We defended this by saying that our ability to do more depended upon a strengthening of the economy. Last year we made a small improvement in the planned provision, so as to avoid a further decline in the real value of our aid. We just got by politically with that. But as Sports Aid has followed Live Aid, public enthusiasm for the aid programme has continued to grow - particularly amongst young people, for whose support we need to make a special effort. As the election approaches and with the economy in its sixth consecutive year of growth at or above the European average, we shall be under increasing pressure to honour the undertaking so often repeated that we would do more when we could afford it. I believe the time has come to redeem that pledge - and that we need now to press for an aid programme that is edging upwards again, however modestly.

16. I have not reached this conclusion easily, knowing all too well the continuing pressures on public expenditure. But the aid programme has more than played its part in reducing the burden of public expenditure; the 16% decline in real terms since 1978/79 compares with an overall increase in public expenditure of nearly 9% and a rise in GNP of 7%.

17. Much of the criticism has focussed upon our performance against the 0.7% of GNP target for aid, to which as you know we are committed, and which is widely used, internationally and domestically, as the yardstick for our intentions. It has fallen from 0.44% for the years 1979/80 to only 0.33% in 1985; on present plans it will fall to about 0.31% in 1986, and progressively further in later years. Many of our critics argue that we should set out positively to reverse this trend, by

/planning



planning for an increase of, say, 0.01% each year. That would mean bidding for something like £70m in 1987/88, £150m in 1988/89 and £245m in 1989/90. Given our other difficulties (and objectives) a bid on that scale is, of course, out of the question. But I believe we could deflect much of the criticism, and put ourselves in a better light, if we could show that aid was planned to grow, after 1986, at least in step with the economy; at least our GNP performance would not then get any worse. I therefore propose only that we plan to increase the aid programme at about the same rate as we now expect GNP to grow. This would mean additions to the existing PES baseline for aid of £30 million, £65 million and £110 million.

18. The level of our aid in recent years has fallen increasingly behind what other countries are doing, as the following table shows:

	Aid as % of GNP		Total Aid (\$bn 1984 Prices)	
	<u>1979/80</u>	<u>1984</u>	<u>1979/80</u>	<u>1984</u>
UK	0.44	0.33	1.8	1.4
Netherlands	0.96	1.02	1.2	1.3
Canada	0.46	0.50	1.3	1.6
Germany	0.44	0.45	2.6	2.8
France (excl dependencies)	0.36	0.52	1.7	2.6
Japan	0.30	0.35	3.1	4.3
US	0.23	0.24	7.6	8.7
Italy	0.13	0.33	0.4	1.1

/We



We are the only major donor to have reduced aid in real terms and, indeed, as a percentage of GNP. This has not only made us more vulnerable to criticism at home but has made it more difficult for us to play as constructive a role in world affairs as we should be doing.

19. This decline in the relative size of our aid programme has been bad too for British industry. As other countries have expanded their total aid programmes, multilateral aid has grown. We have succeeded in mitigating the financial consequences for ourselves by large but unobtrusive cuts in our share of contributions, while maintaining industry's access to the substantial business that these programmes generate. But because our total aid has fallen we have not been able to avoid a fall in the real value of our bilateral country programmes of as much as 35% since 1979 (on present plans they will fall further). As a result we are subject to growing criticism for not doing enough through aid to help British firms stay in traditional markets, especially in Asia and Africa. The reduction in our bilateral aid, most of which is tied and comes back to Britain in some form, has had a marked effect on job prospects in many firms. By comparison, the Japanese bilateral programme is now five times larger than ours; and Germany is now committed to spend in India alone two and a half times more than our total programme there.

20. It is against this background that I make my present proposal of a small increase in planned aid. I believe that reversing the downward trend in our aid is the right decision politically and will be widely welcomed in this country, not just by the aid lobby but also by British industry.



21. The ODA's Principal Finance Officer will be writing to provide background detail. He will also be writing about a minor bid in respect of superannuation which we need to make for technical reasons

22. I am copying this minute to the Prime Minister, the Lord President, the Home Secretary and the Secretaries of State for Employment, Environment, and Trade and Industry.

Robert Curran (Private Secretary)

PP

(GEOFFREY HOWE)

(Approved by the Secretary of State and signed in his absence)

Foreign and Commonwealth Office
29 May 1986

