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PUBLIC EXPENDITURE SURVEY 1986: FOREIGN AND COMMONWEALTH OFFICE

Note of a meeting held in the Chief Secretary's Room,
 H M Treasury, at 2.45pm on Friday, 19 September

Present:

H M Treasury

Chief Secretary
 Mr F E R Butler
 Mr Mountfield
 Mr Turnbull
 Mr P G F Davis
 Miss Cund
 Mr Denison
 Mr Hoare
 Mr Tyrie

FCO

Foreign Secretary
 Minister for Overseas
 Development
 Sir P Wright
 Sir C Tickell
 Mr MacInnes
 Mr Vereker
 Mr Galsworthy

FOREIGN OFFICE EXPENDITURE PROGRAMMES

The Chief Secretary said he was grateful for the Foreign Secretary's support for the overall public expenditure strategy. He stressed that the position was very tight, requiring him to resist additional bids where possible and to seek offsetting savings for those that went ahead.

FCO DIPLOMATIC WING

2 It was agreed at the outset that the adjustment for overseas price movements should be determined separately by officials in accordance with the existing arrangements, and that the costs of the home boarding school allowance should be reinstated in accordance with the agreement made in the 1985 Survey.

SECURITY

3 The Chief Secretary recognised the need for increased expenditure on security and said he was grateful for the

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small reduction in the size of the bid in the final year. He accepted the bid, but said he would hope that offsetting savings could be found within the FCO programme.

PSA AND INFORMATION

4 The Chief Secretary suggested that the bids for PSA works and the Whitehall information project (Caldbeck) were minor bids that should be withdrawn, within the spirit of the agreement on overseas price movements (as recorded in the Prime Minister's Private Secretary's letter of 2 April 1985) and accommodated as necessary within existing totals in accordance with departmental priorities.

5 The Foreign Secretary said that the bids were included as a matter of principle since they represented new programmes for which the department should be entitled to new provision. He was particularly concerned that work should proceed in the two areas specifically associated with technological innovation, namely FOLIOS (amounting to £0.5, £0.2, £0.2 million within the overall PSA bid) and the separate bid for Cladbeck. He therefore continued to press for extra resources.

6 The Chief Secretary noted these priorities. He nevertheless stressed that he was faced with PSA works bids from many departments with substantial amounts at stake across the board that could not be afforded in full.

VISAS

7 The Chief Secretary said one of the key questions on the new visa regime was the level of fees. He argued that fees should fully cover the additional costs (other than the start-up costs). He felt the case was sustainable and

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justifiable, especially in the context of the current public expenditure constraints.

8 The Foreign Secretary said that in principle he did not question the introduction of visas and the increase in fees. He had supported the existing policy of continuing increases to minimise the net costs. The question though was how far it was possible to go in the present circumstances. The FCO proposals already envisaged an increase in the basic visa fee from the existing £12 to £16 (with concomitant increases in the other fees). To recover costs fully would require an increase to some £22 and it was a question of judgment whether this was politically possible. Where visas were being introduced for the first time the impact would be the full amount of the fee, not just the increase. The overall amounts in question were substantial compared with other countries fees. The most charged by a similar country was £11 by Italy; the new French visas cost £6.

9 The Chief Secretary suggested that the scale of the UK operations justified a higher level of charges even though, as it was pointed out, the operation of certain other countries such as France and Italy had some similar characteristics. He said the additional increase he sought was trivial to the person paying, but represented substantial amounts in total in public expenditure terms.

MANPOWER

10 The Chief Secretary noted three manpower issues:

- a. the FCO bid for an extra 120 staff for visa work;
- b. the FCO bid for an extra 130 staff to reinstate cuts agreed previously;
- c. the Treasury proposal for cuts of 100 staff in the existing complement.

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11 The Foreign Secretary said that the bid for visa staff was based on the interdepartmental assessment of requirements by officials. He said he was convinced that the current complement was not sufficient and that, although the 130 cut had previously been accepted as part of the FCO's contribution to the overall manpower targets, some reinstatement was now required. There were serious problems of management and morale because of the pressures created by a continuously expanding workload within the existing manpower baseline. He argued that an apparent shortfall of 250 was reduced to just 88 by special factors (early transfer of broadcasting staff and GCHQ staff, treated separately). This represented recruitment shortfalls in certain particular grades, but the manpower need was clear and should not be written down on that account. He hoped that the Chief Secretary would withdraw his proposed reduction and accept some increase.

12 The Chief Secretary recognised that the FCO had said they could accommodate the costs of the 130 staff within existing running cost totals, but noted that the manpower targets were already under severe pressure. He agreed that he would not press his proposed reduction of 100 staff. He said it would be very helpful if the Foreign Secretary could reduce his bid for visa staff from 120 to 100 to correspond more closely with the 98 staff savings in the Home Office arising from the introduction of the new visa regime. Without some movement from the Foreign Secretary on visas, he thought it would be difficult to envisage movement by the Treasury on the remaining 130 staff bid.

OFFSETTING SAVINGS

13 The Chief Secretary listed charges for commercial work, efficiency savings and asset recycling as possible sources of savings to help offset the cost of the security bid.

14 The Foreign Secretary said that the question of charges for commercial work was constantly reviewed. He was not opposed

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to charging in principle, but doubted the feasibility of introducing any new point of charge. He could not identify any area where returns would be worth the political difficulties. He nevertheless recognised the current NAO interest in charging policy and agreed that there was scope for a further review with a view to increased charges. He nevertheless could not accept that any savings could be assumed in the current survey.

15 The Foreign Secretary said that the efficiency savings had already been taken into account in their programme. They were required to help bridge the gap between the cash uplift factor and the actual running cost increases. He could not therefore offer savings from this source as offsets to his other bids.

16 It was for discussion whether the running cost savings generated by asset recycling should be surrendered to the Treasury or retained by FCO. The Foreign Secretary suggested that it should be possible in separate discussion to establish a formula governing the allocation of savings and that, on that basis, he was prepared to offer some savings here.

ODA PROGRAMMES

17 The Chief Secretary accepted the reductions currently offered in Aid Administration.

18 The Foreign Secretary said that pensions credit for war service had to be maintained as a separate bid. It would not be appropriate for him to offset the cost by reductions in the aid budget. He said the proposal had a great deal of popular support and that it was therefore an attractive reform. The Chief Secretary note the position but said it was simply not possible to introduce new arrangements of

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this kind in a year of such great public expenditure pressure. The Foreign Secretary suggested that the bid could be borne in mind as a possible Budget sweetener.

AID BUDGET

19 The Foreign Secretary said that last year's additions to the aid budget, to maintain its real value, had been very helpful politically. He was looking for a similar agreement this year to maintain the level of the aid budget as a proportion of GNP. The UK had fallen from second place to sixth and that within the overall total the continued growth in multilateral aid caused a severe squeeze on bilateral programmes.

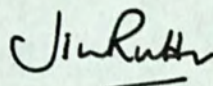
20 The Minister for Overseas Development stressed the importance of at least holding the present position on the proportion of GNP. He noted the political importance of the aid programme, particularly in the light of the Geldof factor. He noted that the UK had been the only country to reduce its aid programme and had the worst record among aid donors.

21. The Chief Secretary said he recognised the political dimension. The overall strategy involved reducing total public expenditure as a proportion of GNP. Faced with large claims on other programmes he could not see scope for the increases in the aid budget envisaged by the Foreign Secretary. He stressed that the amounts in question - £30 million, £65 million, £110 million in the three years - were not small sums. They represented considerable amounts in the current public expenditure exercise.

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22 It was agreed that the aid bid could not be settled at the bilateral.



JILL RUTTER

Private Secretary

Distribution

Those present
Principal Private Secretary
PS/Sir Peter Middleton

H M Treasury
24 September 1986

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