



10 DOWNING STREET

From the Private Secretary

Prime Minister

For your meeting on Wednesday. To note Sir A Parsons' views.

Various compromises are possible

- (i) Conceding increases on BBC and British Council to be matched by offsetting savings on aid, leaving no net change
- (ii) As (i) on BBC and BC but with a larger saving on aid to produce a small cut overall.

AT

14/10

FES: FCO (ODA AND DIPLOMATIC WING): OUTSTANDING ITEMS

<u>ODA</u>	£m		
	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
1. <u>Aid Programme</u>			
Baseline	1,096	1,129	1,163
Foreign Secretary's bid	+43	+70	+95
Chief Secretary's proposal	-20	-30	-40

The Foreign Secretary's bids are:-

(i) Bilateral aid	+36	+62	+85
-------------------	-----	-----	-----

The bid would restore bilateral country aid to its 1982-83 level in cost terms. Because of inevitable increases in multilateral aid (mainly due to the rise in EC aid programmes) provision at the baseline will require some continuing decline in bilateral aid, which has fallen by one third in cost terms since 1979-80. The Foreign Secretary feels that this would be politically and commercially damaging. Moreover on present plans UK aid is likely to decline slightly as a percentage of GNP. Our present percentage is about 0.4 per cent, as against the UN target of 0.7 per cent to which we are committed, although without time-limit.

The Chief Secretary's position is that:-

(a) He cannot accept arguments based on preserving the volume of a programme at any particular level.

(b) The cuts he seeks could be found by reducing the amount within the aid programme which is at present unallocated. This unallocated margin is at present £88m, £120m and £147m in the three FES years. Some of this will be required to meet new demands, but it does provide some flexibility.

(c) There are political, commercial and developmental benefits from multilateral aid, not just from bilateral aid.

/(d)

(d) Increasing multilateral aid, especially EC aid, must be seen as an alternative channel for UK aid not an addition to it.

(e) The time to consider our performance against the UN aid target is when our/^{OWN}economic recovery is secure.

(ii) Aid Trade Provision (ATP) +7 +8 +10

The Foreign Secretary argues that UK exporters see ATP as an important indication of the Government's intention to obtain the maximum commercial benefits from aid; that the Secretary of State for Trade favours an increase; and that developing countries increasingly expect mixed credits.

The Chief Secretary's view is that ATP has increased dramatically over the last four years from £25m (5 per cent of the bilateral aid programme) in 1979-80 to its present level of £66m (9 per cent); that we should not increase international competition in mixed credits; but that he would not object to a limited reallocation of funds to ATP from elsewhere within the aid programme.

Note

At the second bilateral meeting on 7 October, the Foreign Secretary said that he might be prepared to drop his bid for ATP and to reduce his bid for bilateral aid, thus reducing his total bid for the aid programme to £20m, £40m and £60m. The Chief Secretary said he could not accept any increase and indeed, needed to seek savings. The Foreign Secretary then withdrew his offer.

2. Overseas Pensions

	£m		
	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Baseline	92	98	103
Foreign Secretary's bid	+3	+3	+3

The bid is to give ex-colonial public servants credit for war service, bringing them into line with UK public sector pensioners.

The Chief Secretary does not feel this is of sufficient priority to justify extra provision in present circumstances.

The Foreign Secretary has indicated that he might be willing to withdraw this bid, subject to a satisfactory settlement overall.

Financial Year

The remaining difference is as follows:-

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Baseline	576	598	606
Foreign Secretary's bid	+10	+10	+23
Chief Secretary's proposal	-	-	+ 9
Gap	10	10	14

The Chief Secretary has agreed a bid of £9.3m in 1986-87 for overseas students. The Foreign Secretary's outstanding bids are:-

BBC External Services (mainly for modernising the monitoring service and <u>for pay</u>)	3.4	5.7	9.5
British Council (to maintain 1983-84 level of activity)	4.3	4.4	4.6
Iran Embassy compensation	1.0	-	-
Lebanon Multinational Force (MNF)	1.3	-	-

The Chief Secretary's position is that:-

(a) He has already favoured the FCO by conceding the bid for overseas students and otherwise offering to settle at the baseline, at a time when other departments' programmes are being cut.

(b) The BBC and British Council cannot be exempted from curbs on public expenditure and the need to achieve savings through greater efficiency.

(c) He is particularly reluctant to allow extra provision to cover BBC pay increases above the general public sector level.

(d) Any small extra provision which the Foreign Secretary thinks desirable for the BBC and British Council could be met by offsetting savings, for example in FCO's administrative costs or in the UK peacekeeping force in Cyprus.

(e) The Lebanon MNF and the Iranian Embassy costs should be met from within FCO's own contingency reserve, the current level of which is £5 million.