

CONFIDENTIAL



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

11 March 1980

Dear Sir,

When the Chancellor next sees the Prime Minister privately, he would like to draw her attention to the pressures from backbenchers building up to exempt the British Council from its share of public expenditure cuts. He is strongly of the view that it would not be right to exempt the Council, and will suggest a possible strategy to the Prime Minister. It would be helpful if the Prime Minister had seen earlier correspondence, and I enclose papers which he would be grateful if you could bring to the Prime Ministers' attention.

I am,
M A

M A HALL
Private Secretary

T Lankester Esq
No 10 Downing Street

FROM: THE RT HON MICHAEL JOPLING MP

C !

CH/EXCHEQUER	
REC.	10 MAR 1980
ACTION	MR WIDDUP 10/3
COPIES TO	CST
	FST
	SIR D. WASS
	SIR A. RAWLINS
	MR BARRATT
	MR FER BUTLER
	MR SLATER
MR CARDONA	
MR RIDLEY	



Government Chief Whip
12 Downing Street, London SW1

4 March 1980

Thank you for sending me a copy of your minute of 26 February to Paul Channon about the British Council and Pay and Cash Limits.

Peter Morrison has already spoken to Peter Blaker about this, and warned him that there would be a major row in the House if further cuts were pushed through, and the British Council were to resign as a result.

I agree entirely with Peter Morrison especially in view of Early Day Motion No 188 which has attracted 92 signatories, of which 17 are Government supporters. In my view the key factor will be whether the Members of the Board resign or not.

I am copying this to Paul Channon and Geoffrey Howe.

Rt Hon Lord Carrington PC KCMG MC
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
SW1A 2AL



FCS/80/44

MINISTER OF STATE, CIVIL SERVICE DEPARTMENT

British Council: Pay and Cash Limits

sent 26/2

CH/EXCHEQUER	
REC.	26 FEB 1980
ACTION	M. Liddop
COMES TO	CST EST Sir D. Lias Sir A. Asherson Sir U. Gorkins Mr. Barnes Mr. F.H. Butler Mr. Scott

*Mr. Cameron
Mr. Liddop*

1. I have been examining the effect on the British Council of a pay cash limit squeeze of 5% mentioned in your letter of 24 January to Willie Whitelaw and other Departmental Ministers. It is evident that coming on top of the cuts already imposed such a course would have very serious consequences.
2. Cabinet decided last year that Council expenditure should take a cut of £5.2 million in 1980/81 (£3 million from FCO; £2.2 million from ODA). The level of expenditure from 1981/82 to 1983/84 was subsequently considered by means of an Interdepartmental Review which identified three options. You will recall discussing these with Geoffrey Howe and other colleagues on 29 January when we decided that the Council's budget should be reduced by a further £3.9 million (option 'B') which would be achieved by three successive annual reductions. You will also recall that Neil Marten and I entered a further caveat that pressure on the Aid Programme was likely to cause additional reductions in the ODA funding element, possibly by as much as £2 million a year.
3. The real impact of all this on the Council's expenditure and in consequence on the scale of its activities is set out in Parts I and II of the attached table. The cuts already agreed (Part I) produce a reduction of 11.2% in 1980/81 rising to 19.5% in 1983/84. The extent of the further reduction in ODA fundings (Part II) is still being worked out by my officials but the probable outcome is that by 1983/84 we shall have imposed a total percentage cut of almost 24%.
4. The Council is planning to meet the 1980/81 cut by reducing its staff establishment by about 360 UK-based posts and 175 locally-engaged staff abroad. Part III of the table shows what would happen if in addition they were required to bear a cash limits squeeze of 5% in that year. Such a squeeze would amount to £.8 million or another 98 posts. But the rub is that because the offsetting factors of normal wastage and halting recruitment would have been exhausted in meeting the known 1980/81 cuts, the further 98 staff

→ About Civil Service Pay and Cash Limits

/savings



savings could be achieved only by enforced redundancies which the Council estimate would cost them an additional £1.1 million. The Council would thus be hit twice over. Effectively it would have to face a total reduction of £7.1 million (15.23%) in 1980/81. This course, compounded by option 'B' in the subsequent years and the probable additional reduction in ODA fundings, would damage the Council irreversibly.

5. At the meeting on 29 January I argued against any further cuts in the Council's spending levels. But in view of the inescapable need to reduce public expenditure, I went along with the choice of option 'B'. This represented, in my view, the absolute maximum cut the Council could bear and still remain an effective instrument of our foreign policy. The possibility that a cash limit squeeze might also be imposed on the Council was not discussed. Had it been, I would have resisted it strongly. However, having learned that Treasury have not yet allocated any provision for next year's pay award (presumably because the Council is linked to the Civil Service for pay matters) I think it right to establish that the Council will be exempted from a further reduction in manpower through a cash limit squeeze. Unless this is done I believe we shall be faced with resignations from the Board, who have already expressed grave concern about the likely effect of the recent decisions taken; and with an outcry from the Council's supporters in Parliament and elsewhere who are by no means reconciled with what has been done so far. Our judgement is that there could be a major Parliamentary row from which the Government might not emerge victorious. Your letter acknowledged that special treatment might be required for small Departments on which further cuts would bear especially hard. I trust therefore that you and Geoffrey Howe, to whom I am copying this minute, will agree that the Council should be so exempted.

6. I am also sending a copy of this minute to Michael Jopling in view of the Parliamentary interest.

(CARRINGTON)

Foreign and Commonwealth Office

26 February 1980

I.

ALL FIGURES AT 1979 SURVEY PRICES£ MILLION

	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>
<u>PESC POSITION (PRE CUTS)</u>				
F.C.O.	26.2	26.2	26.2	26.2
O.D.A. contribution to core budget	14.5	14.5	14.5	14.5
O.D.A. Aid Admin.	5.9	5.9	5.9	5.9
	<hr/> 46.6	<hr/> 46.6	<hr/> 46.6	<hr/> 46.6
	'A'	'B'	'C'	'D'
<u>FIRM CUTS</u>				
F.C.O.	3.0	(1.0) (3.0)	(1.6) (3.0)	2.2 3.0
O.D.A.	2.2	(0.6) (2.2)	(1.3) (2.2)	1.7 2.2
	<hr/> 5.2	<hr/> 6.8	<hr/> 8.1	<hr/> 9.1
	'A'	'B'	'C'	'D'

- 'A' : 11.2% Reduction
 'B' : 14.6% Reduction
 'C' : 17.4% Reduction
 'D' : 19.5% Reduction

II. If the probable further reduction in "Aid Administration" began to be applied in 1981/82 and rose progressively to a maximum of £2 million in 1983/84, the total percentage cut for that year would amount to 23.8%

III. If a 5% cash limit squeeze were to be applied in 1980/81 the effect would be to reduce the provision for manpower related costs by some £.8 million. But in order to divest themselves of the necessary 98 staff in the year, the Council estimate they would have to pay under the terms of the Redundancy Agreement an additional £1.1 million by way of redundancy pay and notice. The total effect would be a further reduction in money available for activities in 1980/81 amounting to some £1.9 million; making the effective cut for that year:-

	£5.2 m
plus	1.9 m
	<hr/> £7.1 m

or a percentage cut of 15.23% in 1980/81

BUDGET - SECRET

TIME MINISTER

Meeting with the Chancellor:

13 March

(Page 1 - Budget Secret - Gen Pol Rt 3)

- 2 -

that we would have to buy some additional shares. The Chancellor will dispute this on the grounds that: (a) it will cost money - perhaps £50 million if BP were to issue £200 million of new shares, and (b) it would look like intervention in their affairs. The expenditure point is well taken, but you will want to probe him on the alleged intervention point.

(ii) Public Expenditure on the British Council

Pressure is building up from the Foreign Office and other Backbenchers to exempt the British Council from its share of public expenditure cuts. Correspondence on this is at Flag C. The Chancellor wants your support against the Foreign Office. There are some separate papers in the box from Lord Carrington asking for exemption for the Foreign Office from the 2½% staff cuts. He is invoking the exception which Cabinet agreed for "very small departments". I do not think you ought to settle this - or the other Foreign Office bids - with the Chancellor bilaterally, i.e. without having Foreign Office Ministers in as well.

I. P. LANKESTER

12 March 1980