

We decided not to have a
major battle over 23m - the Treasury Prime Minister
must find it.

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Ref. A02361

PRIME MINISTER

I understand that a great deal of discussion
argument was needed to produce this brief paper.
Even so it contains no clear recommendation. My
understanding was that you had already decided on the
option at 7(b). You did not refer to the need for
compensating ODA/Fto, savings & I assumed that you meant
British Council the money to come from the Contingency Reserve. Agree?
or would you prefer a further Ministerial meeting?

At your meeting on Wednesday, 3rd June you asked me to arrange for
officials to agree a factual note on the issues which have arisen on the financing
of the British Council and possible options for dealing with the problem. A note,
prepared by the Cabinet Office in consultation with the FCO, the ODA, the
Treasury and the CSD, is attached.

2. The easiest way for matters to be brought to a conclusion would be for
you to reconvene your meeting for the purpose. The Foreign Affairs Select
Committee is, I understand, proposing to take oral evidence from the FCO and
the British Council separately on 25th June so that, if possible, decisions
should be reached before then.

3. I am copying this minute and enclosure to the Foreign and Commonwealth
Secretary, the Chancellor of the Exchequer, the Ministers of State at the
Foreign and Commonwealth Office, Civil Service Department and Department of
Trade, and the Chief Whip.

RA

(Robert Armstrong)

17th June, 1980

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British Council Finances

The British Council spends about £100 million a year and employs something over 4,000 staff. About half of the total expenditure is accounted for by various overseas aid projects handled, as a matter of administrative convenience, by the Council on behalf of the ODA and by the Council's earnings from other sources. The remainder (the so-called 'Core Budget') is devoted to the Council's own activities and is financed by funds from the FCO budget including the Aid Programme. It includes a sum which represents reimbursement of the Council's costs in acting as ODA's agent in respect of the aid programme.

2. The Council have been given the following figures for their Core Budget:

£ million at 1979 Survey prices

1980-81	1981-82	1982-83	1983-84
41.4	39.8	38.5	37.5

They also know of the further prospective cuts in the Core Budget which might amount to £2.4 million in 1983-84 (thus giving the £35 million figure of which Sir Charles Troughton complained to the Prime Minister).

3. The additional prospective cuts comprise two elements: first, the Civil Service pay settlement this year provided for a 2½ per cent cut in staff numbers (to bring the settlement within cash limits). Although British Council staff are not civil servants, they are paid at Civil Service rates and the British Council is cash-limited. In common with other similar fringe bodies they have therefore been asked to accept a comparable cut equal to 2½ per cent of their wages bill. As such a cut would be permanent this implies a reduction from the White Paper figures of £0.4 million in each year of the PESC period.

4. The second arises from the British Council's agency activities in respect of the aid programme. The administrative costs in question amount to £5.3 million in 1980-81. The level of future expenditure under this head has not yet been determined - because it depends on decisions yet to be taken about the makeup of the aid programme - and indeed can only be determined year by year. But in their forward planning ODA are assuming that with a declining aid



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programme, the cost to the Council of the agency services they provide - and hence the level of reimbursement - will decline by about £0.5 million a year, starting in 1980-81 and rising to £2 million in 1983-84. In theory this loss should not affect the Council's central activities. But in practice the staff concerned provide support for the British Council's activities as well as handling aid disbursements so that the Council has a direct interest in this element of its expenditure.

5. A $2\frac{1}{2}$ per cent staff saving (something over 100 jobs) is probably attainable by the British Council without serious damage to their main activities. But it would involve redundancies which the Council have to finance from their own resources. It has however already been decided that the internal organisation of the British Council should be reviewed as part of a major review of the Council's activities later this year under the direction of Lord Seebohm. In these circumstances it would be possible to argue that implementation of the $2\frac{1}{2}$ per cent staff cut should be deferred until the results of the review are available. The cost of deferment would be small and the Treasury are prepared to find a means of accommodating it for this year only. The CSD would be left with a presentational problem. They have undertaken to inform the Treasury and Civil Service Select Committee of the details of the staff cuts arising from the pay exercise and to tell them of exemptions. Other fringe bodies might seize on special treatment for the British Council as an excuse to defend their own complements. The Seebohm exercise might provide adequate cover. The problem of staff numbers, and cost, would however remain to be dealt with in subsequent years.

6. The envisaged cut in the ODA's contribution to the British Council's agency costs is more difficult to handle. If decisions about the future pattern and size of the aid programme lead to a reduction in the administrative costs falling on the Council, the ODA cannot be expected to reimburse expenses not incurred. And given that the size of future administrative costs is as yet undeterminable - depending as it does on wider decisions on the makeup of the aid programme - there are obvious difficulties in setting a single figure for the Core Budget now. On the other hand the sums at issue are relatively small and the British Council's lobby well organised and vocal.



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7. In the circumstances there appear to be three courses open to Ministers:
- (a) to say that, in view of the forthcoming Seebohm review, the level of funding for the British Council in 1981-82, 1982-83 and 1983-84 cannot be determined now. The 2½ per cent staff cut this year would be deferred on similar grounds. It would still be necessary in this summer's PESC exercise to take a view on funding for 1981-82. But figures for future years would be illustrative only until decisions on Seebohm were taken early in 1981;
 - (b) to decide now on a fixed figure for 1983-84 and adjust the component parts of the British Council's programme to fit it in future years as the justifiable scale of agency payments becomes apparent. It would be necessary also to agree on a path to the final year's figure. Discussion at the meeting with the Prime Minister centred on Sir Charles Troughton's suggestion of £38 million for 1983-84. The FCO have confirmed that when Sir Charles indicated that £38 million was the lowest figure for their Core Budget that might be acceptable, he meant precisely what he said. The Council's Board are on record as wanting £41.5 million but Sir Charles clearly believes that he could persuade them to accept £38 million, but nothing less. In theory the additional funds needed for this could be financed by compensating reductions elsewhere in the FCO/ODA PESC provisions. But these Departments do not agree that this is an option. The only other source is the Contingency Reserve: a prospect which raises equal reservations on the part of the Treasury.
 - (c) Finally it might be possible to combine the two approaches and tell the British Council that it can plan for the time being on an expenditure path leading to £38 million in 1983-84 but specifically reserving the right to amend the figure in the light of the Seebohm Report - including its implications for staffing - and future Ministerial decisions on public expenditure generally. This route might have some presentational advantage, but would not give the British Council the certainty they so clearly desire for longer-term planning.



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According to the view expressed by Sir Charles Troughton to the Prime Minister, only option (b) would be likely to induce the Council to call off their campaign against the cuts. But it is of course only an option if the source of funds can be agreed.

Cabinet Office
17th June 1980

