

010



British Council
have honoured
their side of the

Prime Minister
You should see - but may wish to
await the Chief Secretary's comments
before intervening.

FCS/82/98

begin - we must
honour ours. I have

A.S.C. 6/7.

CHIEF SECRETARY TO THE TREASURY

Total confidential
in Nick Troughton.


British Council Finances 1982/83 and 1983/84

1. Our predecessors were involved in 1979 and 1980 in detailed discussions of the British Council's finances up to and including the financial year 1983/84. These discussions, which were finally resolved following the direct intervention of the Prime Minister, led to a decision which was recorded for the Government in Peter Blaker's letter of 24 June 1980 to the Council's Director-General. I enclose a copy.

2. The letter made it clear to the Council that the projected level of expenditure could be used for long-term planning purposes. It was implicit that the level of expenditure would not be changed and in consequence the Council's activity planning could be carried out within the overall financial provisions. In other words, the letter guaranteed a volume of activity as well as an overall financial provision and all their financial planning has been carried out in accordance with this premise. The Council have been scrupulous in meeting the reductions imposed by the letter. In cash terms they have saved £5.2 million in 1980/81, £1.6 million 1981/82 and a further £1.5 million in the current year. Between 1979/80 and 1982/83 they have reduced their home-based establishments by 365 - over 17% and have closed 11 Area Offices in the UK in addition to savings abroad.

3. The Government's decision to change from volume planning at constant prices to cash planning has caused difficulties for the Council. This is because the percentages allowed for inflation have been insufficient to permit the Council to maintain

/the agreed level



the agreed level of activity for which they have continued to plan in accordance with what they regard as the Government's undertaking. As you will readily appreciate, if we were to require the Council now to make the necessary savings in the current year they would face serious difficulties. Furthermore, they are already considering their plans for 1983/84, which year is also specifically covered by the letter. They estimate that over the 2 years, they would need to withdraw completely from about 12 countries, close 10 overseas branch offices and find some £1.5m savings at home. Further savings would then be required from programmes to cover redundancy payments.

4. In cash terms, the Council started 1982/83 with a shortfall amounting to £1.7m. They will experience a further difficulty during the current financial year from the Government's decision to implement the recent Civil Service arbitration award in full. The salaries of the Council's staff are linked to the Civil Service and they calculate that the pay award, over which they had no control, will occasion a further short-fall of £0.4m. The third aspect is that the Council are anticipating that the adverse effects of inflation overseas will occasion a substantial short-fall of cash in 1982/83. There exists, however, an agreement between officials to mitigate the effects of such trends and it may be necessary to invoke this later in the year.

5. We are therefore faced with an important issue of principle and while the sums involved are not great we must accept that the Council were given a clear undertaking in 1980 and they have every reason to suppose we shall honour it. I therefore propose that if we can agree that remedial measures are necessary our officials meet to discuss how the financial short-fall could be tackled. The difficulty from the FCO point of view is that any sums required to meet the short-fall could not be found from the provisions under my control and would have to come from the Central Contingency Reserve.

/6. Unless



6. Unless we take action to rectify the situation, we can expect to be accused publicly of a breach of faith. In view of the Prime Minister's personal involvement in the previous arrangements, I am sending a copy of this minute to her.

A handwritten signature in black ink, appearing to be 'F. Pym', with a horizontal line underneath.

(FRANCIS PYM)

Foreign and Commonwealth Office
5 July 1982

*Robert
Foreign Office*

4 August, 1982

BRITISH COUNCIL FINANCES 1982/83 AND
1983/84

Thank you for your letter of 3 August.

The Prime Minister is content with the arrangements you describe.

I am copying this letter to Terry Mathews (HM Treasury).

A. J. COLES

F N Richards, Esq,
Foreign and Commonwealth Office



Prime Minister

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

Content with this arrangement?

AFC. 3/8

Y. - Harrison
ant

August 1982

Dear John,

British Council Finances 1982/83 and 1983/84

In your letter of 19 July you passed on the Prime Minister's request to be consulted before a decision was taken on the level of British Council finances for 1982/83 and 1983/84.

In his letter of 15 July to the Foreign and Commonwealth Secretary, the Chief Secretary accepted the view that the Government must honour the undertaking given to the Council in 1980. He suggested that officials should meet to consider how the short-fall should be tackled.

The meeting has taken place and an arrangement devised under which the FCO will endeavour to find a contribution towards the additional funds required by the Council from within its existing and planned financial resources. Treasury, for its part, have recognised that, to the extent this cannot be done, recourse to the Central Contingencies Reserve for the current year and an appropriate addition to our expenditure programmes for 1983/84 will be required.

The Foreign and Commonwealth Secretary is content with this arrangement which will enable us to assure Sir Charles Troughton that the Council will be provided with sufficient funds to enable the planned programme of activities to be carried out. These were based on the 1980 undertaking.

It remains to be seen how far this additional expenditure can be met from existing FCO financial resources without curtailing existing activities, and how far there will be a need to call on the Central Contingency Reserve. This can be considered later in the year.

If the Prime Minister is content, the Secretary of State will inform Sir Charles Troughton accordingly.

I am sending a copy of this letter to Terry Mathews in the Chief Secretary's Office.

Yours ever,
(F N Richards)
Private Secretary

Francis Richards

A J Coles Esq
10 Downing Street

Foreign

re



RM

10 DOWNING STREET

From the Private Secretary

19 July, 1982

BRITISH COUNCIL FINANCES

The Prime Minister has seen the Chief Secretary's minute of 15 July to the Foreign and Commonwealth Secretary. She has said that she would wish to be consulted again before any further decisions are made on this matter.

I am sending a copy of this letter to Terry Mathews (Chief Secretary's Office, HM Treasury).

F Richards, Esq
Foreign and Commonwealth Office

Before any further
decisions are made - please
refer to me first.



Prime Minister

(2)

A.S.C. 16/7

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Francis Pym MC MP
Secretary of State
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

15 July 1982

Francis

BRITISH COUNCIL FINANCES 1982-83 AND 1983-84

Thank you for your minute of 5 July. I have also seen the Prime Minister's comments in Mr Coles' letter of 8 July.

Of course I accept that in this instance we must honour the undertakings given in 1980. I would only note that this is yet another endorsement of the wisdom of the move to cash planning which should, I hope, prevent us from taking on open-ended commitments of this kind in the future.

I agree that our officials should meet to discuss how the financial shortfall should be tackled. I note what you say about the difficulty of finding even such relatively small sums from within the FCO's existing provisions but, as I am sure you appreciate, the central Contingency Reserve is also under pressure, and officials will need to look at all possible ways of accommodating any increased cash requirement for the Council without adding to the total of public expenditure.

It would also be helpful if officials could report to us on any other potential claims on FCO expenditure provisions, so far as they can be identified and costed, whether in the current year or in the period covered by the Public Expenditure Survey which have for one reason or another been omitted from the 1982 PES report. I have in mind for example the recent correspondence between Cranley Onslow and Peter Blaker on the subject of a possible UK contribution to the UN Transition Assistance Group in Namibia.

I am sending a copy of this letter to the Prime Minister.

LEON BRITTAN



Foreign Policy
Lte Mb

10 DOWNING STREET

From the Private Secretary

8 July 1982

BRITISH COUNCIL FINANCES 1982/83
AND 1983/84

The Prime Minister has seen the minute of 5 July from the Foreign and Commonwealth Secretary to the Chief Secretary. The Prime Minister has commented:-

"The British Council have honoured their side of the bargain - we must honour ours."

Mrs. Thatcher had a word about this matter with the Chancellor of the Exchequer on the aircraft to Rome yesterday.

I am copying this letter to John Kerr (H.M. Treasury) and Terry Mathews (Chief Secretary's Office).

A. J. COLES

John Holmes, Esq.,
Foreign and Commonwealth Office.

LB

For PA

fn
Pm
-

BY BAG
RESTRICTED
FM FCO

TO CERTAIN MISSIONS AND DEPENDENT TERRITORIES
TEL NO GUIDANCE 70 OF 10 JULY 80
THE BRITISH COUNCIL

1. Guidance telegram no 21 of 25 February reported further reductions to be made in the British Council's core budget up to 1983/84.
2. Ministers have now reconsidered the level of Council financing and have agreed that the Council's core budget should not fall below £38 million at 1979 survey prices by 1983/84. The reduction will be phased over the intervening years.

LINE TO TAKE

3. Your local British Council Representative will have already received details of this latest decision. You should not stimulate discussion on this subject. If questioned you should make the following points as necessary:

(1) The earlier figures did not take account of the ODA's Aid Administration payments, which cover the administrative costs incurred by the Council in implementing those parts of the Aid Programme entrusted to it. These payments can only be calculated on a year by year basis as the volume of such work becomes known. The Government's present decision will mitigate the effects of sudden fluctuations in Aid Administration payments and will enable the Council to undertake sensible long-term planning.

(2) The previous level of Council financing would have reduced the Council's core budget to about £35.5 million by 1983/84, since, in addition to the cuts detailed in Guidance TUR, there would have been an additional reduction of up to £2 million in the ODA's contribution for aid administration.

(3) It is too early to forecast the present effect of these revised reductions on the Council's activities at home or abroad. This will emerge from the detailed discussion which will take place before the end of the year between the Council, FCO and ODA.

RESTRICTED

(4) The Council have set in motion a Review of certain aspects of their management and administration, under Lord Seebohm: this is not an exercise aimed at producing further cuts, though it may well suggest areas for economies. We welcome the Review, with which we shall of course cooperate fully.

FOR YOUR OWN INFORMATION

4. The present decision was taken by Ministers after the Council had successfully represented the adverse effects that the earlier decision would have had on the Council's effectiveness. The new figures represent a reduction in the cut to be imposed upon the Council. By 1983/84 the Council's core budget will still have been reduced by about 18.5 per cent from the 1979/80 figure. The decision thus represents a refinement of the earlier decision rather than an abrupt reversal of policy. But the alleviation is a real one and should go far to satisfy critics of the earlier cuts. The Council's Board has accepted the latest figures and will cooperate with the Council's sponsor Departments in applying them.

5. The additional funds will be found from the contingency reserve. The decision does not therefore affect other FCO or ODA votes.

CARRINGTON

F CO | WA DISTN

O I D

ADDITIONAL DISTN
GUIDANCE