



FCS/84/88

CHIEF SECRETARY TO THE TREASURY

19.3.84  
 Requested by HM from  
 ce NO  
 PC 13

B.U. when reply from  
 Chief Secretary is available

A.S.C. 23/3

Attached - 1. Thank you for your letter of 30 January. I am glad that agreement has since been reached on the Council's supplementary estimate in 1983/84. But as I indicated in my minute of 23 January, and as my officials have warned yours, I consider that I must take up the case for an addition for the Council in 1984/85.

2. Let me repeat first of all that I entirely agree with you that the Council went too far in their lobbying, notably in relation to the "Times" leader of 16 January. Admittedly they are an independent organisation with MPs on their Board but I believe it was wrong and unhelpful of them to behave in this way. My Permanent Under-Secretary made our views very clear to the Deputy Director-General at the time and the Chairman subsequently telephoned his apologies. I myself took the opportunity at a luncheon at the British Council to reinforce these views with the Director-General. But the fact remains that there is a serious problem over finances.

3. My officials and I have asked the Council a number of searching questions about their financial management and encouraged them to substantiate and explain their position in detail. The results are included in the attached paper on British Council Finances 1984/85 and beyond. The Council fully recognise that they must now accept the discipline of cash limits and have already taken steps to absorb the £0.8m which they calculate home risen costs will amount to during 1984/85. But I do not believe they should also absorb the £2.6m which is the equivalent figure in 1984/85 of the risen costs provided for in the supplementary estimate. The

/practical



practical and political problems that the Blaker formula was designed to meet remain exactly as they were. It seems to me entirely illogical to agree to a supplementary for 1983/84 - the last of the Blaker commitment years - and not carry it forward into 1984/85.

4. It is only since our 1983 PES discussions that I have received precise figures from the Council to substantiate this part of their additional bid. (These figures were unavailable at the time because the Council calculate them on actual expenditure at October 1983 prices.) And there has been another important development, in that more information is available about the likely increase in the rent of Spring Gardens when the lease is renewed in July. No reliable estimates were available at the time of our bilaterals. Indeed the precise level of figures is still under negotiation. But it is clear that the present rent of £0.4m, a sum which has been fixed for the past 10 years, (to the tax payers advantage) will be increased by an estimated £1.9m a year. The Council will need an additional £1.4m to cover the proportion of the increase falling in the financial year 1984-85, subject to adjustment once negotiations with the Landlords are completed.

5. The Council have been told that they must plan within the agreed PES provision. But I hope you will agree that this new factor strongly reinforces the case for accepting their bid for £2.6m for 1984/85 and indeed for increasing it by £1.4m to a total of £4m. I am not putting forward this request lightly. I consider it essential in the Parliamentary context that the Council should enter the post-Blaker period with a fair level of funding. To impose now what would look like an arbitrary cut would have a very serious effect on this important arm of the government's overseas policy, and would I believe be strongly and widely criticized in both Houses of Parliament.



6. Turning to the longer term, I hope you will be sympathetic, in the 1984 PES round, to a bid to carry forward what we agree for 1984/85 into succeeding years. The principal problem for the Council lies in the level of overseas risen costs which are running some 8% over Government inflation factors. In my view it is very important to find a satisfactory mechanism for meeting the Council's overseas risen costs net of exchange rate movements both within the years in which they arise and in adjusting the PES provision for subsequent years. Our officials are in touch about a formula for this purpose to cover all Diplomatic Wing votes.

7. In the Council's case, the lack of such a mechanism makes long term planning impossible and, if present trends continue, could mean its virtual elimination as a serious organisation in 5 or 6 years. The attached paper sets out to show what will happen in 1984/85 and 1985/86 if no adjustments are made. The Council would be forced to reduce drastically its activities across the Board. It would mean that overseas offices would necessarily have to be closed and scholarships, visits and exchanges programmes severely cut. Cultural activities play an important part in the furtherance of foreign policy objectives. The British Council's role is central to these activities.

8. Neither of us can be in any doubt that a reduction on the scale outlined in the paper would cause a major Parliamentary row. When we faced the same sort of row in 1980, we were obliged to accept the Blaker formula, which was agreed, as you may recall, after meetings between Sir Charles Troughton, the Prime Minister and myself. A fresh - and quite unnecessary - row would only oblige us to reinvent exactly the same solution. Most "banana skins" - perish the metaphor! - are, by definition, unforeseen. I can see no case for throwing one under our own feet, with our eyes open.



9. I should add that both the Director-General of the Council and the Chairman of the Board feel strongly that the volume reduction imposed on the Council over the last 5 years - 18½% in the core budget leading to a 19% reduction in staff - was more severe than the reductions imposed on the public sector as a whole. They also argue that important opportunities for Britain are being lost because it is underfunded. This is a view for which I have some sympathy.

10. I have noted the suggestion in your letter of 16 January that you might be prepared to consider a proposal to transfer some of my existing cash-limited provision to the Council's grant-in-aid. But as you know from our previous discussions all my existing programme allocations are under very great pressure. I very much hope therefore that you will reconsider your position in relation to the £2.6 million bid for 1984/85 and further agree provision of £1.4 million in respect of rent in that financial year, as well as giving some thought to an acceptable mechanism for dealing with overseas risen costs in the long term.

11. I am copying this minute to the Prime Minister.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office  
19 March 1984

BRITISH COUNCIL FINANCES 1984/85 AND BEYOND

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## BRITISH COUNCIL FINANCES 1984/85 AND BEYOND

1. This paper provides information about the British Council's financial position from 1984/85 onwards at the request of the Foreign and Commonwealth Office. It falls into two parts. The first explains why the Council has estimated that if no adjustments were to be made to its Public Expenditure Survey provision for 1984/85 and 1985/86, there would be a shortfall of about £6.9 million and £12.3 million respectively in those years. The second illustrates the damage that a failure to adjust the PES provision would do to the Council. A shortfall of £12.3 million in 1985/86 would represent a cut of 32.3% on the Council's Core budget since 1979/80 in volume terms.

2. The paper uses the following terms:-

Mixed Money Budget describes the Grant-in-Aid from the Foreign and Commonwealth Office and the corresponding contribution from the Overseas Development Administration which fund the basic structure of the Council overseas, and the corresponding services provided in Britain.

Core Budget describes the Mixed Money Budget together with the additional contribution from the Overseas Development Administration, which pays for the costs of administering certain of its aid programmes on an Agency basis, "Aid Administration".

3. The cuts of 18½% imposed on the Council between 1979/80 and 1983/84 were expressed as cuts on the Council's "Core Budget", as calculated at Autumn 1978 prices. This paper expresses the figures during that period in terms of the core budget revalued annually. From 1984/85 onwards substantial variations in the amount of Agency work the FCO and ODA have asked the Council to manage, principally the additional provision for overseas students, has led to corresponding variations in the costs of Aid Administration. It is therefore preferable from 1984/85 onwards to refer to Mixed Money in cash terms which are the bases of the Public Expenditure Survey.

4. The £6.9 million shortfall in 1984/85 referred to in paragraph one above consists of four elements:-

£2.6 million carry forward from 1983/84

£2.1 million excess overseas risen costs estimated for 1984/85

£0.8 million excess home risen costs estimated for 1984/85

£1.4 million additional rent for Spring Gardens

5. The £12.3 million shortfall in 1985/86 consists of:-

£6.9 million carried forward from 1984/85

£2.1 million excess overseas risen costs estimated for 1985/86

£0.8 million excess home risen costs estimated for 1985/86

£0.5 million Spring Gardens rent to complete a full year's figure

£2.0 million cost of redundancy payments

6. All these elements are explained in detail below.

#### PART I

##### A. 1984/85

##### Carry Forward 1983/84 to 1984/85

7. The first element in the shortfall of £6.9 million in 1984/85, is the sum of £2.6 million which is the equivalent in 1984/85 of the £2.9 million Spring Supplementary agreed for 1983/84.

8. The 1983/84 Spring Supplementary was the last to be submitted in the "Blaker" arrangement under which reductions in the Council's core budget over the period from 1979/80 to 1983/84 were restricted to 18½% in volume terms. As a result, risen costs, largely arising because of the higher rates of inflation overseas, have been reimbursed to the Council through Supplementary Estimates. During this period home inflation was falling fast, but overseas inflation, even after adjustment for exchange rate variations, continued at a high level. This was an element not comprehended in the Government Inflation Factors, although one-third of the Council's budget is spent overseas.

9. The risen costs beyond the Government's inflation factors experienced during the years 1981/82 and 1982/83 totalled £4.3 million. These were examined by the Treasury and granted as Supplementaries. Bilateral talks between FCO and Treasury led to this sum being added to the Council's PES provision for 1984/85 and the following years.

10. However, the £2.9 million risen costs granted as a Supplementary in 1983/84 have not been carried forward into the Council's PES provision for 1984/85 and following years. For this to be done a sum of £2.6 million would also have to be added to its PES provision for those years. The difference of £0.3 million arises principally because the 1984/85 Estimate shows the effects of inflation and exchange movements on the budget for a full financial year, while the Supplementary provision reflects other variables, such as back-dated pay awards for locally-engaged staff overseas and exchange rate variations on a different base.

11. The sum of £2.6 million represents, therefore, actual risen costs experienced during the period October 1982 to October 1983, and which affect the price level at which the Council enters 1984/85. The cash provision in the Public Expenditure Survey for 1984/85 is £2.6 million less than would be expected if the 1983/84 Estimates, including the Spring Supplementary, were to be converted to the same price level as the 1984/85 Estimates using the Government Inflation Factors.

#### Risen Costs in 1984/85

12. The second and third elements in the forecast total shortfall of £6.9 million in 1984/85, arise from a forecast of home and overseas inflation (£0.8 million and £2.1 million respectively).

13. The forecast is based on past trends, experience and in the case of overseas costs, a conservative estimate of the likely increase. Such forecasts are necessary for the proper planning of resources and for the information of the Council's sponsors, particularly in the context of the discussions on the Public Expenditure Survey provision. However, the Council's requests for funds in the main Supply Estimates have always been on the basis of actual costs already experienced.



14. The bases of these forecasts, which are illustrated in detail in the tables below, are the 1984/85 Mixed Money estimates (including the £2.6 million carry forward from 1983/84).

Home Costs	:	Salaries & Home Allowances	£22 million
		Other UK Costs	£20 million
			£42 million
Overseas Costs	:		£24 million

15. Expenditure Base:

			<u>Estimated</u>	
			<u>Increase</u>	
Home Costs	:	Salaries & Home Allowances	5%	(2% above 3% factor)
		Other UK Costs	6.5%	(1.5% above 5% factor)
Overseas Costs	:		13.5%	(8.5% above 5% factor)

16. Such increases would lead to a shortfall in the Council's 1984/85 Mixed Money cash provision as follows:-

<u>Expenditure</u>	<u>Mixed Money Base</u>	<u>Excess Factor</u>	<u>Forecast Shortfall</u>
	£m		£m
<u>Home Costs:</u>			
Salaries & Home Allowances	22	2%	0.5
Other UK Costs	20	1.5%	0.3
	—		—
Total Home Costs	42		0.8
<u>Overseas Costs</u>	24	8.5%	2.1
	—		—
<u>Totals</u>	66		2.9

Notes on these tables:

17. Note 1 : Home Costs

Salaries and Allowances in 1983/84 rose a little over 5.5%, or 2% above the factor allowed.

Other UK Costs: the average rate of UK inflation seems now to be slightly below the assumption made at the time of preparing these forecasts, and 6.5% may be too high. But the basket of goods purchased by the Council is different from that included in the RPI. University fees for the 1984/85 academic year are 9% higher than in 1983/84. The cost of books is rising at an annual rate above 10%.

❖ Note 2 : Overseas Costs

The table below shows the Council's experience of risen costs overseas in recent years. The key elements determining the difference between UK and Overseas Inflation (Column 6) have been exchange gains (Column 3) and UK Inflation (Column 5). The rate of inflation overseas has in fact remained fairly constant at between 15% and 19%. Paradoxically the main cause of the Council's difficulties has been the fall in the rate of UK inflation. The exchange position has been historically volatile, although more constant in recent years. It is perhaps surprising that there has been a net gain in the exchange position in all recent years (Column 3) which is a reflection of the Council's work in developing countries. Exchange rate movements in the Council's experience have never balanced the difference between home and overseas inflation.

Table to paragraph 17 : Note 2

<u>RISEN COSTS OVERSEAS 1977/78 TO 1982/83</u>					
1. Year	2. Inflation Overseas (Council experience)	3. Exchange Gain (£m)	4. Net Overseas Risen Costs (2-3)	5. RPI (to 79-80) or Government Factor (from 80-81)	6. Difference (4-5)
	%		%	%	%
1977-78	17	0.8	13	8	5
1978-79	15	1.3	9	17	-8
1979-80	17	1.1	12	15	-3
1980-81	19	0.3	18	12	6
1981-82	18	0.4	16	9	7
1982-83	15	0.2	14	5	9

18. The Council gives particular attention to the calculation of risen costs in its offices overseas. All Representations are given a local currency budget and are required to monitor each item on a continuing basis. These are reported to HQ which checks their calculations against published indices, and adjusts the cash provision accordingly. When there is a change in the rate of exchange of sterling against the local currency of more than 5%, there is a month-end revaluation of the unspent balances for the remainder of the year (and for the following year). All changes in expenditure and receipts are marked in the budget as (a) a risen, or fallen, costs, (b) an exchange rate gain or loss or (c) as a virement from or to another budget item.

## Rent

19. The fourth element in the shortfall of £6.9 million for 1984/85 is an increase in the rent of the Council's Spring Gardens premises estimated at £1.4 million for 1984/85 and £1.9 million in a full year. The increase will not be known until shortly before the lease is renewed in July.

20. The present rent, paid since 1974, and subject to review after ten years has been at the rate of £3.10 per square foot, giving an annual rental of £402,860. This was lower than the commercial rents in the area in 1974 because restrictions were then laid on the use of the building by the Westminster City Council, although these restrictions have now been withdrawn. The professional adviser employed by the Council to negotiate a new rent with the landlord, estimates that the benefit of this restriction was £13 million over the period. This saving has in effect accrued to Government because of the method by which the Council has been funded over the period.

21. The adviser considers that he can negotiate a rent with the landlord at £17 per square foot, which is in line with that generally regarded as being a fair rent for the area. It would be fixed for another ten years. However it should be noted that the landlord's present asking price is £21 a square foot.

22. The Council has considered the possibility, if it were able to assign the lease on Spring Gardens, of moving to cheaper premises, in the London suburbs. The rents for such accommodation would be in the range £10 to £15 per square foot and unlikely to be fixed for ten years. It is doubtful whether substantial savings could be achieved by moving out of London, and the disadvantages to the Council's efficiency would be considerable. The reductions in the Council's manpower since 1979/80, 19%, are reflected in the reduction of office space in seven offices outside London, and the termination of leases on three properties in London. Sixty staff, previously employed by IUC and TETOC, were at the same time accommodated in Spring Gardens.

23. The Council has of course been well aware of the impending increase of its rental costs for a number of years. It understood that the restrictions laid down by the Westminster City Council still applied, and that the Council would be able to obtain a rate lower than the commercial rents for the district. The Council's Board was informed

of this possible increase in June 1983, pending further talks with the Westminster City Council and the appointment of a professional negotiator. In June 1983 there were still wide variations in the estimates of the amounts to be needed. It was considered inadvisable to include a notional forecast in the PES negotiations in July and August of that year, particularly in view of the adverse reaction to a notional forecast of overseas risen costs for 1984/85.

24. The professional negotiator was appointed in November 1983, and Counsel's advice was taken on the matter of restricted use in December.

A. 1985/86

25. The forecast shortfall for 1985/86 takes the forecast for 1984/85 of £6.9 million and adds three further items:-

£m
6.9 brought forward from 1984/85
0.5 Spring Gardens rent
2.9 additional risen costs in excess of the inflation factors (£2.1 million overseas and £0.8 million home)
<hr/> 10.3
2.0 Redundancy payments
<hr/> 12.3

26. The £0.5 million additional cost of Spring Gardens rent is the balance of the annual requirement described in paragraphs 19 to 24 above.

27. The £2.9 million additional risen costs makes the same assumptions as in 1984/85 for home costs and a further 1% reduction in the rate of overseas inflation to 12½%.

28. If there were to be no adjustments to the current provision for Mixed Money funding in the Public Expenditure Survey, there would need to be a substantial reduction in the current levels of staffing (already reductions of 19% on 1979/80). It is not possible accurately to forecast the number and costs involved, but taking the least damaging figures for post reductions given in paragraph 53 below and after allowing for natural wastage the Council would expect to lose some 40 members of the Overseas Career Service (Grades HEO and above), 70 home serving staff, and 270 locally-engaged staff overseas. The £2 million written in for redundancy costs, which the Council has always been expected to fund from its own budget, is a conservative estimate. Experience in recent years has suggested that costs, depending on the length of service, seniority and entitlement of the staff involved could rise to a figure nearer £4 million. The redundancy spiral would then lead to more costs and more redundancies.

C. The Council's Total Programme 1979/80 to 1983/84

29. The cuts made to the Council during the period were to its "core" budget, that is the "mixed money" contributions from the Foreign and Commonwealth Office and the Overseas Development Administration, and the respective contributions of each to the costs of administering its Agency work. Other elements in the Council's total programme are ODA and FCO Agency funds; funds given to the Council to administer programmes of other Agencies (eg European Development Fund, UN); programmes passed by ODA to the Council from the Inter-University Council and TETOC; and the revenue the Council earns (mainly for Paid Educational Services and English teaching in its institutes overseas).

The Core Budget

30. The cuts in the Council's core budget between 1980/81 and 1983/84 were communicated to the Council in a letter from Mr Peter Blaker dated 24 June 1980. They were expressed at 1979 Survey prices (ie prices prevailing at October 1978) and were:-

	£m				
	1979/80	1980/81	1981/82	1982/83	1983/84
	46.6	41.4	40.2	39.1	38.0

In cash terms the budget moved over the four years as follows:-

Estimate Year	79/80	80/81	81/82	82/83	83/84
Price Base August	1978	1979	1980	1981	1982

80-81 cut  $\frac{46.6}{(5.2)}$   
41.4

82-83 cut  $\frac{49.1}{(1.6)}$   
47.5

54.3  
 $(1.6)$   
52.7

83-84 cut  $\frac{59.0}{(1.7)}$   
57.3

63.5

(ie 66.8 at 83/84 cash prices)

#### Aid Administration

31. Expenditure on administering the ODA programmes entrusted to the Council on an agency basis, and included in the above figures rose from £5.5 million 1979/80 to an estimated £6.4 million in 1983/84. At the same time the

32. ODA Aid Agency funds entrusted to the Council rose from £38 million in 1979/80 to an estimated £56.7 million in 1983/84. Until 1982/83 these increases were broadly in line with UK inflation. In 1983/84 the work was increased by an additional provision for overseas students, "the Overseas Students' Package". From 1979/80 until 1983/84 the value of work handled by the Council thus rose by 49% while administrative costs increased by 16%, an increase in productivity of 22%.

## Other Agencies

33. Over the same five-year period, the funds received from other agencies (UN, EDF) and overseas Governments rose from £5.9 million to £15.6 million, while the Council's handling charges for this work, accruing as revenue, rose from £0.4 million to £1.2 million, reflecting the increased costs incurred by the Council.

34. The Council's total revenue over the period, including the above figures rose from £11.6 million in 1979/80 at Autumn 1978 prices to £20.2 million in 1983/84 at Autumn 1982 prices. Of the increase of £8.6 million, £7.8 million is attributable to the risen costs of these programmes, and £0.8 million to the cost of increasing the programmes to meet demand, particularly for the Direct Teaching of English. Revenue-earning activities are expected normally to cover their own costs on a global basis and any surpluses are used to support other programmes mainly in the countries where they are earned [in many cases necessarily so, as the Council is obliged to acknowledge the legal and political problems which "profit"-making and remittances of currency into sterling present].

35. In 1982/83 the IUC, the Inter-University Council for Higher Education Overseas and TETOC, the organisation for Technical Education and Training for Overseas Countries, were merged with the Council. Operational activity was maintained at the 1981/82 level and £0.5 million savings on running costs realised.

### D. The Council's Budget in the Future

36. Most important to the Council is some continuing arrangement to cover the effect of overseas inflation and exchange rate movements, since in its absence the Council's work in cultural and educational relations will be seriously and progressively reduced. There are two other main arguments which support such an agreement.

37. The effect of strict application of cash planning to the Council is disproportionate to the effect on home departments because of the higher average rate of inflation overseas, net of exchange rate movements. A comparison of the Treasury factors for general expenditure with the Retail Price Index (from October to October) from 1981/82 to 1983/84 suggests that most government departments have suffered very little from the cash limit system:



	<u>RPI</u>	<u>Inflation Factor</u>
1981/82	11.7	11
1982/83	6.8	9
1983/84	5	5

UK inflation of 6% from October 1983 to October 1984 would constrain departmental expenditure by 1%. British Council expenditure in the same circumstance would be constrained by 5.2%. This figure, derived from the tables at paragraph 16, is calculated as follows:-

	<u>Mixed Money Base</u>	<u>Excess Factor</u>	<u>Shortfall</u>
	£m		£m
UK Costs (other than salaries & allowances)	20	1.0%	0.2
Overseas Costs	24	8.5%	2.1
	<u>44</u>	<u>5.2%</u>	<u>2.3</u>

38. The Council has given priority to the efficient and effective use of its resources. The absence of an arrangement to cover excess risen costs overseas renders it subject to the vagaries of the economies in which it works, thus making the effective planning of resources impossible.

## PART II

39. On 27 January 1984, Sir Antony Acland wrote to the Director-General asking him to ensure that the Council's operations were planned on the basis of the existing PES provision. Subsequently a paper put to the British Council's Board on 7 February 1984, proposed that a contingency plan should be put into action in three stages. The first stage, which has been implemented already, was a cut of £1.0 million to cover the risen costs at home in 1984/85 likely to be in excess of the Government Inflation Factors, and described in paragraph 12 - 18 above. The second stage (£6.1 million) was to cover all other costs likely to arise in 1984/85 (overseas risen costs and the new Spring Gardens rent), and the £2.6 million which the Council wishes to see carried forward from 1983/84. These elements are described in paragraphs 7 - 24 above. Stage Three (£12.3 million) was to cover the consequences in 1985/86 described in paragraphs 25 - 28 above.

### Stage One

40. Stage One was approved by the Board and involves a shortfall of £1.0 million to be covered as follows:-

1. A reduction of 1% in posts at home (16 posts);
2. A reduction of 3% in home running costs;
3. A reduction of 3% in overseas running costs.

41. The cut in home running costs will include reductions in provision for temporary assistance, furniture and equipment, freight costs, periodicals and travel in the UK and overseas. The cut in overseas running costs will involve reducing budgets for redecorating, equipment, general running costs, temporary assistance and LE posts.

## Stage Two

42. Stage Two covers all risen costs other than those occurring at home likely to arise in 1984/85: risen costs overseas, (£2.1 million), the Spring Gardens rent, (£1.4 million), and the £2.6 million which the Council seeks to carry forward from 1983/84: a total of £6.1 million.

43. An illustrative contingency plan for this stage put to the Council's Board suggested that in addition to the £1 million found in Stage One the money should be found from three sources: £3.6 million from 'operational' funds (the money available for the exchange of persons, the purchase of books, and for Arts events), the remainder from a curtailment of the capital programme (£1 million) and the purchase of equipment (£0.5 million). These cuts were planned in this way for two reasons: first, it would buy time to set about the major restructuring that cuts of this magnitude would involve; and second it would be possible to implement these cuts very quickly: to close offices and to make staff redundant takes time.

44. In the case of major structural change leases have to be given up, staff and their possessions moved, local staff given notice and a large number of commitments settled. The Council estimates that these dispositions would take a minimum of six months from the beginning of the financial year, or from whatever point final decisions on the Council's budgets are made.

45. To avoid excessive operational cuts it would be possible, and probably desirable, to start closing some representations in 1984/85. If such a decision were to be taken in the Spring, the Council estimates that the closure of ten of the smaller representations overseas would produce a half year saving of £1.8 million, including seven London-based staff overseas, 52 locally-engaged staff and 33 posts at home. £4.1 million would still need to be found by cuts in capital projects, and by cuts in operational funds.

46. A cut of £1 million in the capital programme would lead to the cancellation of the following projects:-

£'000

Venezuela : (new premises and DTEO)	200
Supply Department : Move to Reading area	95
Netherlands : refurbishment of office premises	45
Peru : new premises	70
Italy, new DTEO premises	100
Morocco, Pakistan, Bahrain feasibility studies	100
Spain : Madrid School expansion	90
Singapore : re-scheduling the construction of new building	250
Minor capital works	50
	£1,000

47. The remaining £3.1 million could be found by a mix of cuts from operational funds which could be:-

Libraries	:	£0.8 million	:	(30%)
Visitors	:	£0.9 million	:	(30%)
Scholarships	:	£0.8 million	:	(25%)
Specialist Tours	:	£0.6 million	:	(30%)

Table Two at paragraph 53 below illustrates why such large proportional cuts need to be made in order to achieve the necessary savings.

### Stage Three

48. An illustrative plan was put to the Council's Board to show the effect of a cut of £12.3 million in 1985/86.

£12.3 million consists of:-

£6.9 million carried forward from 1984/85

£2.1 million overseas risen costs occurring in 1985/86

£0.8 million home risen costs occurring in 1985/86

£0.5 million additional rent for Spring Gardens

£2.0 million redundancy costs

£12.3

It will be understood that the redundancy cost would arise as a result of a failure to find a solution to the Council's problems: they would not be included in a bid for extra funding.

49. The Board recognised that contingency plans of this magnitude must be directed towards longer-term structural change: £12.3 million represents 18.5% of the Council's core budget.

50. In the circumstances of an 18.5% cut in its 1985/86 estimate, the Council would of course consider a range of options. There are four approaches:-

1. the elimination of the Council's smaller representations, and their associated home costs;
2. a proportionate cut across all representations overseas, and the associated home costs;
3. the reduction or elimination of functions and the associated costs at home and overseas;
4. a mixture of 1 to 3 above.

51. The three tables below are an attempt to illustrate the consequences of the first three approaches.

52. TABLE ONE

53. TABLE TWO

54. TABLE THREE.

TABLE ONE

£m

Brought forward from Stage One	1.0	
Curtailment of Capital Projects	0.4	
Savings following Stage Two cut in scholarships	0.4	
Withdrawal of all 25 small Representations, (Bahrain, Oman, Qatar, United Arab Emirates, Botswana, Burma, Cameroon, Ghana, Lesotho, Senegal, Sierra Leone, South Pacific, Uganda, Yemen, Australia, Canada, Ecuador, Lebanon, New Zealand, United States, Chile, Ethiopia, German Democratic Republic, Romania, Soviet Union)	6.7	)
		)
Withdrawal of 9 medium-sized representations		)
		)
eg:-		)
Venezuela	0.6	) LA Posts Overseas
Korea	0.5	) LA Posts Home
Philippines	0.4	) LE Posts
Zambia	0.4	)
Finland	0.4	)
Netherlands	0.4	)
Peru	0.3	)
Iraq	0.4	)
Czechoslovakia	0.4	)
	<hr/>	
	12.3	
	<hr/>	

NOTES:-

It will be noted that the cuts of Representations include an apportionment of Headquarters and other UK costs.

A major difficulty in this approach would arise from the special interests of our sponsoring departments in particular areas: for FCO, East Europe and the Gulf; for ODA, countries with substantial aid programmes.

Another (internal) difficulty would arise from the virtual elimination of posts staffed at Grade D (FCO Grade 5) in the Overseas Career Service.

TABLE TWO

£M

FUNCTION	Costs			REVENUE	NET	STAFF NUMBER		
	Staff	Operational	Running			LA		LE
						O'seas	Home	
LIBRARIES	4.1	2.3	3.5	0.8	9.1	16	75	529
VISITORS	2.4	2.7	0.4	..	5.5	9	134	41
SCHOLARSHIPS	0.9	3.4	0.2		4.5	7	41	25
SPECIALIST TOURS	1.6	1.4	0.3		3.3	17	61	39
BOOK PROMOTION	1.0	0.6	0.2	0.2	1.6	6	46	51
ALL ARTS ACTIVITIES	3.0	2.9	0.8	0.4	6.3	26	109	136
	13.	13.3	5.4	1.4	30.3	81	466	821

NOTE:

Cuts of £12.3 million could be achieved by cutting the Council's Libraries and Specialist Tours programmes entirely, or cutting all six activities by a little more than 30%. Reading across the table, the post losses at home and overseas would be considerable.



TABLE THREE

Category	Countries	Funding £m	Cut	Countries	LA Overseas	Home	LE
A	22	32,944	6,410	4	31	124	215
B	34	18,737	3,670	6	20	71	158
C	25	8,695	1,690	5	7	33	52
D&F	5	2,727	530	1		10	3
	<u>86</u>	<u>63,103</u>	<u>12,300</u>	<u>16</u>	<u>58</u>	<u>238</u>	<u>428</u>

A cut of £12.3 million taken evenly across the five categories of countries would lead to closures in sixteen countries, the loss of 296 home-based staff, and 428 locally-engaged posts.

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