



PM/84/68

PRIME MINISTERBritish Council Finances


1. I have been in correspondence with Peter Rees about the level of British Council funding for 1984/85: my minute of 19 March and his reply of 13 April.
2. We need to reach a decision on this quickly or we shall face a major Parliamentary row. Peter Rees has said that he is not convinced that the Council ought to have the additional £4 million I am seeking. But as I made clear in my earlier minute, the increase of £1.4 million in the Spring Gardens rent is inescapable (the tax-payer has benefitted from the fact that the rent has been unchanged for the last 10 years). So is the requirement to meet the £2.6 million of risen costs: I see that Peter Rees does not contest this. The Council has already taken a reduction in its core budget of 18.5 per cent over the last four years. They have slimmed down considerably and I am satisfied that there is no more fat to cut into within their budget. Unless more money can be found for 1984/85, they will be forced to cut their front-line activities to a degree which we all know would be politically indefensible.
3. The only question therefore is how the shortfall should be financed. There are two options. Either the Council will have to be given specific funds for this purpose. Or, as Peter Rees suggests, one of my other Votes will have to be raided. But the fact that the resources provided for other programmes (primarily the aid budget) are relatively large does not mean that they should be diverted to the Council. Almost all the unallocated reserves of £50 million to which he refers are part of the aid programme and intended to provide an essential element of flexibility in a budget that has fallen significantly over recent years.

/4. We must



4. We must find a solution quickly - and one which assures a separate and reliable foundation for British Council finances. The Commons Foreign Affairs Committee meet on 16 May to scrutinise the FCO's estimates. They have already told us that they intend to look at the British Council's finances as one of their main areas of interest. Unless we can find the Council the funds they need to sustain their activities at least on their present scale, we shall face Parliamentary problems of the same level as in 1980, when we were obliged to settle for the Blaker formula. I see no alternative to meeting the Council's unique combination of problems this year by giving them an additional £4 million from the Central Reserve. I recommend strongly that we should decide this before the FAC hearing on 16 May. The Chief Secretary and I agree that for the longer term the formula for overseas risen costs, which the FCO are negotiating with the Treasury, should also take account of the Council's problems. This is important if we are not to be faced with recurrent problems over financing the British Council.

5. I am copying this minute to the Chief Secretary and to the Lord President of the Council (together with earlier papers).

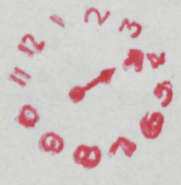
 GEOFFREY HOWE

(Approved by the Foreign Secretary
and signed in his absence by
his Private Secretary)

Foreign and Commonwealth Office
19 April 1984

Econ Pol: Public Expenditure 1427.

19 APR 1984





FROM: CHIEF SECRETARY
DATE: 27 April 1984

PRIME MINISTER

BRITISH COUNCIL FINANCES

Geoffrey Howe sent me a copy of his minute to you of 19 April.

I will not rehearse all the arguments in the previous correspondence, which you have seen. I would merely emphasise three points:

a) Nothing has changed since we decided in last autumn's PES on the level of British Council funding for 1984-85. The Council knew that the Spring Gardens rent was going to increase and it was their choice not to seek extra PES provision. The other £2.6 million of risen costs were discussed in PES and Geoffrey Howe withdrew the bid as part of the overall settlement we reached with the assistance of the Lord President (which provided for an increase of £4.3 million for the British Council). To increase the total of cash limits right at the start of the financial year in these circumstances can only bring the system into disrepute.

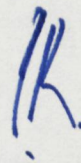
b) The Council's gross budget is £99 million. It is not clear that they cannot find efficiency and other marginal savings within that to offset the extra costs they face.

c) If nevertheless Geoffrey Howe wants to give the Council some extra money, this is perfectly possible from within his existing programmes. Purely by way of

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illustration, if he wished to give them £2 million, £0.7 million would come from the aid programme under the existing agreed policy whereby 35% of the Council's general costs are financed in this way (and he could provide more than this out of his £1.2 billion gross aid programme if he wished); the remaining £1.3 million represents about one third of one per cent of the provision on his main Overseas Representation Vote. Indeed I understand that some funds are now available as a result of slippage on the Bearley broadcasting relay station.

I am copy this minute to Geoffrey Howe and Willie Whitelaw.



PETER REES

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign Affairs
Foreign & Commonwealth Office
Downing Street
LONDON
SW1A 2AL

13 April 1984

Stan Gwynne

THE BRITISH COUNCIL

In your minute of 19 March you asked for a further £4m from the Central Reserve for the British Council.

I am afraid I cannot agree to a further increase so soon after we have finally settled our protracted negotiations on the 1984-85 PES provision for your programmes, especially as I have already agreed to an extra £3.6m for you on top of the settlement we reached with the Lord President in November. We have only just entered the 1984-85 financial year and I do not see how I could justify making an announcement of an increase in cash limited expenditure to Parliament at this early stage.

I am not myself convinced that the British Council ought to have increased provision for 1984-85. However this is primarily a matter of priorities within foreign policy expenditure and I would be prepared to agree to transfers from your other Votes, if you did wish to give the Council some increase. The total resources available to you are nearly £1.8 billion including unallocated reserves of almost £50m. Within such sums it must be possible to find something extra for the British Council, if you feel it is justified. It would in any event be normal for part of any increase to come from within the aid programme.

I must ask you to find your own solution to the British Council's immediate problems. For the future, I agree that the Council should be included in the procedure our officials are currently discussing for dealing with overseas inflation and exchange rate fluctuations. The provision for future years will of course be for discussion during the public expenditure survey discussions in the autumn.

MANAGEMENT IN CONFIDENCE

I am copying this letter to the Prime Minister.

Yours truly
P. Rees

P REES

MANAGEMENT IN CONFIDENCE

~~Gen. M. Public Expenditure 1727~~
By Mr. Fol. Pol.
Cancer
8/1991

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