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cc FOREIGN Policy
Review of British Council
Aug. 79

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

16 January 1984

Rec Secretary of State,

FCO EXPENDITURE PROBLEMS

Will request if required

We are meeting on Wednesday to discuss your minutes of 12 December and 9 January about the effect of sterling depreciation on FCO expenditure. Meanwhile it might be helpful if I reply on the two other issues outstanding between us - the case limit breach in 1982-83 and your proposal for extra provision for the British Council.

Cash Limit Breach 1982-83

You minuted me about this on 12 December. I accept that the Exchequer did not lose as a result of the breach, because the extra receipts which could not be appropriated in aid of your Vote came in as Consolidated Fund Extra Receipts. However, I understand that the fact that the excess expenditure was matched by extra receipts was only established for certain when the final accounts were being put together well after the end of the financial year. If sterling had moved differently, there could have been a real loss to the Exchequer. It is the failure to control your expenditure flow towards the end of the financial year to ensure that the cash limit was observed which disturbs me, and my officials will be discussing with yours how your financial management system can be improved. I do not feel therefore that there are sufficient extenuating circumstances to justify an exception to the rule requiring a corresponding adjustment in the year following a cash limit breach. The FCO have already been favourably treated in this respect by my agreement that there should be no offsetting deduction for the 1982-83 Vote 2 cash limit breach. I would be grateful if you would arrange for an early announcement to Parliament of the breach and the reduction of £1.2 million this year.

You also referred in your minute to the prospective outturn for 1983-84. I understand that you now expect to be able to stay within your cash limit without using receipts which would normally come to the Exchequer. I am very glad to hear this, as it would have been very difficult for me to provide you with extra money in this way. I appreciate that the £1.2 million deduction will make things a little tighter, but I do not think it is too much to ask you to make any marginal adjustments to your expenditure which are necessary.

British Council

In your minute of 30 December you asked for additional provision for the British Council in 1983-84 and 1984-85 and responded to my comments about the Council's lobbying activities.

I am prepared to accept an increase in the British Council cash limit in 1983-84, in accordance with the Blaker commitment, to cover the risen costs experienced by the Council. I think however that ODA should contribute their appropriate share of this from within the Aid Programme which under the 65:35 formula would come to about £1 million. Officials are still checking the figures, but subject to that I agree that the British Council cash limit should be increased by up to £1.9 million.

We then need to consider how this £1.9 million increase should be financed. Although I appreciate that you are fairly tight up against your cash limit on your main Vote this year, I would normally have to ask you, even at this late stage in the year, to make the fairly small savings necessary to accommodate this. Since however I am having to maintain my position on the £1.2 million deduction for the cash limit breach, I am prepared to offer a package settlement whereby I will find the £1.9 million for the British Council from the central Contingency Reserve if you accept the £1.2 million cash limit cut in Vote 1.

I am most surprised that you should propose a further increase in the British Council's PES provision for 1984-85. We considered this proposal in our bilateral discussions in the autumn and you agreed to withdraw it. It was only on this basis that I was able to accept the overall settlement we reached and it is simply not acceptable for you to reopen this now. The Council has been aware for some time that the Blaker commitment lapses at the end of 1983-84 and that their budget will be subject to the normal rules of cash planning from 1984-85. We have already treated them

favourably by adding £4.3 million to their PES provision for 1984-85, in order to help them maintain their level of activity and minimise the difficulties of moving into the cash planning era, albeit some time after the rest of the public sector. Though no new money can be made available for the Council I would be prepared to consider a proposal to transfer some of your existing cash-limited provision to their grant-in-aid, if that is your order of priority.

On the question of the Council's lobbying activities, the independence to which you refer does not in my view justify the use of Government-financed resources to campaign against the Government (this morning's Times leader is another example). I feel strongly that you should make this clear to the Council - and you may wish to add that it is counter-productive as far as the Government is concerned.

I am copying this letter to the Prime Minister.

yours sincerely

PR

per PETER REES

*(Approved by the Chief Secretary
& signed in his absence).*

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recommendations which have a wider application are being followed up as part of the Department's management priority of improving service to the public.

A number of steps already taken—for example, the introduction of a postal claim form for the unemployed claiming supplementary benefit—assist in meeting objectives mentioned by the report; and its ideas will also be taken into account in the current study of problems in inner-city DHSS offices.

Turning Point (Grant)

Mr. Stevens asked the Secretary of State for Social Services if he will now give a decision on the application from Turning Point for a grant in respect of renovations to the property which is the basis of the ROMA project for drug users.

Mr. Geoffrey Finsberg: No. It is not possible to make a decision on the information supplied so far by the organisation. We are in contact with Turning Point about this, and a decision will be made as soon as possible.

ROMA Project

Mr. Stevens asked the Secretary of State for Social Services when he will announce the 1982-83 revenue grant to the ROMA project for drug users.

Mr. Geoffrey Finsberg: A letter has been sent to the project's chief executive today advising him of the award of grant-aid for ROMA.

Communication Aids (Resource Centres)

Mr. Waller asked the Secretary of State for Social Services when and where resource centres will be set up to act as focal points for the development and sharing of expertise in the application of communication aids for speech-impaired people.

Mr. Rossi: The Department, in conjunction with the Royal Association for Disability and Rehabilitation, has decided to provide funds for the development of communication aids centres in Hammersmith and Fulham health authority, at the Charing Cross hospital; in Sandwell health authority; in Newcastle health authority; and in the Institute of Child Health, at the Wolson centre. My right hon. Friend the Secretary of State for Wales is taking similar action to create a centre at the Rookwood hospital, Cardiff. These, together with the existing centre at the Frenchay hospital, Bristol, will form a national network of centres specialising in the use and development of communication aids.

NATIONAL FINANCE

Tax Payments (Interest Charges)

Mr. Iain Mills asked the Chancellor of the Exchequer if he will introduce legislation to give discretionary powers to Her Majesty's Inland Revenue on the application of interest generated by late payment of tax where the late payment was due to delays caused by prolonged assessment by the district valuer.

Mr. Ridley: Where a substantial delay on the part of the Inland Revenue gives rise to an interest charge, the

Revenue has discretion to mitigate or remit the interest charge otherwise due. Such consideration is also given to cases involving the valuation office.

Capital Outflow

Mr. Austin Mitchell asked the Chancellor of the Exchequer what effect the outflow of capital in recent months has had on the money supply.

Mr. Bruce-Gardyne: It is misleading to consider the monetary impact of either the capital or the current account in isolation. The inevitable counterpart to a large current account surplus is a net capital outflow. But to the extent that the private sector runs an overall balance of payments deficit there will be a net contractionary effect on the domestic money supply.

The most recent estimates for the external counterparts to changes in £M3 appear in table 11.4 of the January edition of "Financial Statistics".

Mr. Austin Mitchell asked the Chancellor of the Exchequer whether he will take steps to counter the contractionary effects of the outflow of capital in recent months on the level of economic activity.

Mr. Bruce-Gardyne: The net capital outflows of recent years are the inevitable counterpart to a large current account surplus. Capital outflows in the form of direct and portfolio investment by United Kingdom residents overseas represent an increase in the nation's net financial wealth. As such they provide a useful source of future net revenue from overseas.

There is no reason to believe that recent capital outflows have exerted a contractionary effect on the United Kingdom economy. There is little evidence to suggest that the capital spending of United Kingdom firms has been constrained by a shortage of external finance. Moreover, United Kingdom direct investment overseas often increases the United Kingdom's access to overseas markets, thereby encouraging output and investment in the domestic economy.

Government Expenditure

Mr. Wigley asked the Chancellor of the Exchequer what is his latest estimate of the effects on central Government spending to date during the current financial year arising from the interest rates being lower than those projected at the time of the Budget.

Mr. Brittan: Estimates of the effects of interest rates differed from those previously projected are not available. Estimates of expenditure on public expenditure programmes and of debt interest payments for 1982-83 as a whole are published today in the public expenditure White Paper. Estimates of central Government payments of debt interest will appear as usual in the Financial Statement and Budget Report on Budget day.

Independent Television Companies (Corporation Tax)

Mr. Watson asked the Chancellor of the Exchequer what is the Government's anticipated revenue from corporation tax levied upon independent television companies for 1982-83.

Mr. Wakeham: I regret that this information is not available.