

a No  
LPC

23/1/84  
Mr MacInnes  
R/P  
R/Lady  
Chief Clerk  
Mr Bryant  
(in)



FCS/84/19

CHIEF SECRETARY, H M TREASURY

FCO Expenditure Problems

Since we met on 18 January, I have been considering how we might make progress on the issues outstanding between us. I would now like to propose the following settlement:

- (a) I would accept the £1.2 m. reduction this year in the FCO Vote 1 cash limit.
  
- (b) The £7.2 m. cost to FCO Vote 1 for 1984/85 resulting from depreciation of sterling between 1 October 1982 and 1 October 1983 would be dealt with as follows: An addition of £3.6 m. would be made to the Estimate for 1984-85. I would adjust my expenditure plans as necessary in order to save a further £3.6 m. (I propose to do this by reducing my present unallocated reserves of £4.2 m. You said that you would not entertain small claims which would appropriately score against those reserves if those claims could not be accommodated within the reduced reserve figure. But of course if there is a further deterioration in sterling or overseas inflation during the course of the year, it will be open to the FCO to make a claim under the existing Rawlinson/Palliser understanding.)

/(c)



RESTRICTED AND ADMINISTRATION  
IN CONFIDENCE



- (c) Officials should work out a clear procedure for the future for taking account of the effect on FCO expenditure of movements in exchange rates and overseas inflation, both in advance of the financial year and during the course of it.
- (d) The Estimate for the British Council in 1984/85 should be at the level of the present PES provision and I would instruct the Council to plan on this basis. However, I will wish to discuss with you in due course the case for an addition.

I would be grateful to have your confirmation that you accept a settlement on this basis.

I recognise, as you will of course, that (c) above is no more than an agreement to agree, which would risk rendering the whole deal void for uncertainty if it ever came to be construed in the courts! It is precisely that kind of uncertainty that we need to avoid, at least at the stage of determining the base line. It is not as though we are concerned with something as amorphous as MOD's RPE, where the amount of cash available can influence the behaviour of the spending department and its suppliers. The exercise is, and should be, as precise and mathematical as it is for corporate accountants or auditors in determining the impact of exchange rate gains (or losses) on the company accounts.

The scale of a man's exchange rate losses/or gains, is as much a question of fact, as Lord Justice Brown would have said, as the state of his digestion. Of course, that fact -

/once



once determined - may (but should not normally) have an impact on subsequent policy decisions. The important thing is to secure an agreed starting point for the annual PESC ritual. This would be in line with practice in Canada and the USA; and with the Treasury's assessment of revenue from North Sea oil, which equally depends upon exchange rate changes.

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

(GEOFFREY HOWE)

Foreign and Commonwealth Office

23 October 1984

*January*