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Mr MacTavish

PS
PS/Plus

PS/Lady Young

Chief Clerk

Mr Briant (Finance Dept)

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Treasury Chambers, Parliament Street, SW1P 3AG

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

30 January 1984

Dear Foreign Secretary

FCO EXPENDITURE PROBLEMS

Thank you for your minute of 24 January. I am glad that we have found the basis for a reasonable settlement. May I, however, clarify two points?

I infer from the form of words that you use that, since you have opted to run down your unallocated reserves as part of the deal on the FCO Vote 1 estimate for 1984-85, you will absorb small claims that might otherwise have been met from them.

I take it too that there can be no question of the Board of the British Council trying to reopen or avoid your instruction to plan on the level of the present PES provision for 1984-85.

As for the future, I admire the precision of your analysis. There is only an agreement to agree, but there is I am sure goodwill and understanding on both sides! While accepting your analogy between the FCO's exchange position and the state of a man's digestion (was it really Brown LJ?), I have to point out - not too acidulously I hope - that in any year the overriding consideration must be the Government's capacity to swallow and digest increased public expenditure even in such a meritorious area as the FCO. Subject to that I am sure our officials can work out a suitable formula which can determine the starting point for the annual PES ritual.

Yours sincerely

J. G. Grev

J. PETER REES

[Approved by the Chief Secretary]