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*cehr*

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P.01415

PRIME MINISTER

Public Expenditure: FCO Programmes

FLAG A

The Lord President in his minute to you of 15 October 1984 has reported that the Foreign and Commonwealth Secretary is unable to accept MISC 106's proposals for settling his two programmes, ie that for the ODA (mainly the aid programme) and that for the FCO Diplomatic Wing MISC 106 has proposed:

No increase in the combined baseline for the two programmes.

The Foreign and Commonwealth Secretary proposes the following increases over baseline:

	£ million		
	1985/86	1986/87	1987/88
ODA	6.2	25	35
FCO (Diplomatic Wing)	33.5	42.8	43.6
	—	—	—
Total	39.7	67.8	78.6
	—	—	—

*in the 1800 hrs meeting folder*

2. I have submitted today to you, the Lord President and the Chief Secretary, a note by the Secretaries of MISC 106 which explains the overall position. As you will see any further significant concessions beyond those already offered by MISC 106 will make it even more difficult than it is already to achieve the overall public expenditure targets approved by the Cabinet last July.

Merits of the case

FLAG B

3. The Foreign and Commonwealth Secretary will deploy the arguments set out in his minute of 22 October, ie mainly:

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i. the bilateral aid programme has been squeezed in real terms by 30 per cent since 1979; the extra ODA bids are needed to maintain it in real terms at its 1984-85 level;

ii. the Diplomatic Wing programme is faced with a number of unavoidable cost increases, arising eg from movements in overseas prices, exchange rate changes, British Council costs, BBC pay, etc.

4. The Lord President, on behalf of MISC 106, is likely to argue in reply:

i. although there are political difficulties over the aid programme, these difficulties are much less than those which will confront the Cabinet on other programmes - notably housing, health and social security, agricultural support and gas and electricity prices;

ii. many other Ministers have been faced with unavoidable increases in their programmes which they have had to meet by offsetting savings and a re-adjustment of priorities.

5. Bearing in mind the overall problem on public expenditure, you will probably conclude that while a small concession (say £10 million a year for each year) might be justified to prevent the FCO programmes from having to come to the Cabinet, it would not be desirable to yield more than this.

#### HANDLING

6. You will wish to begin by expressing your concern about the overall public expenditure situation and then invite the Foreign and Commonwealth Secretary to explain his position (but briefly and without an item by item examination). The Lord President might then be asked to comment.

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CONCLUSION

7. If the Foreign and Commonwealth Secretary shows any sign of being willing to come very close to the MISC 106 proposals, some horse-trading may be worthwhile. If, as is more likely, he is prepared to make only small reductions in his bids, you will wish to conclude the meeting on the basis that the Cabinet will have to resolve the matter, against the background of the overall public expenditure situation and the political difficulties arising on other programmes.

*PLG*

P L GREGSON

30 October 1984

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