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Foreign and Commonwealth Office

London SW1A 2AH

22 January 1985

Dear Richard,

Public Expenditure White Paper: FCO

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AT?

The Foreign Secretary has seen your letter of 18 January. He believes it would not be in the Government's interest to make any reference to further adjustments to FCO programmes and will not do so. Moreover he does not accept the implication that revisions to the FCO baselines for 1986/87 and 1987/88 should take account only of movements in inflation and exchange rates since the 1984 Survey was concluded; past movements and other factors must also be taken into account. He is not at all prepared to make any further adjustments to FCO activities in a downward sense.

He is, therefore glad to note that it has proved possible for officials to agree on a line for the Foreign and Commonwealth Office News Department to take, which I enclose, which avoids giving any such hostages to fortune. It is, however, important that the Government speak with one voice. He trusts, therefore, that the fall back position which he understands the Chief Secretary is being advised to use if pressed on the FCO provision "further cuts in services cannot be ruled out", will be withdrawn and replaced by the attached formula.

I am sending a copy of this letter to Andrew Turnbull at No 10.

Yours ever,

Len Appleyard

(L V Appleyard)
Private Secretary

R J Broadbent Esq
HM Treasury

PUBLIC EXPENDITURE WHITE PAPER : FCO

BACKGROUND

The figures for 'FCO - Other' (i.e. the Diplomatic Wing) in the Public Expenditure White Paper are as follows:-
(£ million)

	<u>1984/5</u>	<u>1985/6</u>	<u>1986/7</u>	<u>1987/8</u>
2.1 Overseas Representation (i.e. Diplomatic Service at home and abroad)	329	332	340	350
2.2 Overseas Information (BBC External Services, British Council, COI)	159	172	180	180
2.3 Other External Relations (international subscriptions, scholarships etc.)	84	95	80	80
2.4 Military Aid	12	13	10	10
T O T A L :	<u>583</u>	<u>612</u>	<u>600*</u>	<u>620</u>

Defensive line to take in response to questions

For 1985/86 the present level of activity will be maintained, subject to the reductions announced on 22 November 1984. For later years by convention the figures are rounded to the nearest £10 million [it is not the practice to give greater details] so a precise comparison with 1985/86 is misleading. There are certain special factors affecting the later years, in particular repayment of a loan to Yugoslavia in equal instalments of £19m in both 1986/87 and 1987/88 (these count as receipts which reduce the 'Other External Relations' programme).

[If pressed] Much will depend on future movements in exchange rates and overseas inflation. As the Foreign Secretary informed the Select Committee on Foreign Affairs last October in Cmnd 9367 'Rises in expenditure resulting from exchange rate movements and differential inflation will be considered as requirements based on changed economic assumptions ... In fixing the longer term programme of the Department in the Public Expenditure Survey, account will be taken of changes of economic assumptions up or down in setting the baseline for future years.'

/[If pressed

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[If pressed further]

It is too early to make any meaningful comment on the level of FCO activities in 1986/87 and 1987/88. These are the figures which the Cabinet has approved for planning purposes.

[If pressed still further]

If there are major adverse movements they can of course be reviewed in the course of the next Survey.

- * The total of the individual programmes is £610 million but the total line is rounded to £600 million. This is a freak of the rounding process.

22 JAN 1985