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FCS/89/099

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Pace

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CHIEF SECRETARYPublic Expenditure Survey: FCO (Diplomatic Wing)

1. Last year we halted a steady decline in the Diplomatic Wing's resources. The arrangement we reached is already paying dividends in allowing us to pursue more assertive commercial, political and cultural policies abroad. As a result, we are now exploiting the rise in Britain's international stature for practical advantage. The successful overseas visits by the Prime Minister and her colleagues, together with the increasing flow of influential visitors to this country, reflect the sound investment we are making in promoting British interests so as to serve the security and economic well-being of the country.

2. This year I want to build on that progress. In particular I have focussed on meeting specific new pressures or opportunities. Even after taking account of our efficiency efforts, I shall require modest additional resources. Leaving aside any adjustment for movement in overseas prices and some contingency requirements identified at the end of this letter, my bids for the 1989 Survey comprise:

| | £m (running cost in brackets) | |
|---------------|-------------------------------|---------------|
| 1990/91 | 1991/92 | 1992/93 |
| 48.00 (20.93) | 58.59 (19.54) | 55.23 (21.77) |



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3. My first set of bids is for meeting existing operational commitments.

They amount to:

| | £m | | | | | |
|---------------|---------|---------|---------|---------|---------|---------|
| | 1990/91 | | 1991/92 | | 1992/93 | |
| | 24.00 | (17.93) | 29.56 | (19.02) | 33.06 | (21.24) |
| of which | | | | | | |
| I Pay/ | | | | | | |
| Allowances | 7.12 | (7.12) | 6.35 | (6.35) | 6.81 | (6.81) |
| II Visas | 10.14 | (9.36) | 11.21 | (11.00) | 12.85 | (12.63) |
| III Security | 4.04 | (0.79) | 1.78 | (0.82) | 1.50 | (0.90) |
| IV Relocation | 1.90 | (-) | 9.35 | (-) | 11.00 | (-) |
| V Healthcare/ | | | | | | |
| Training | 0.80 | (0.66) | 0.87 | (0.85) | 0.90 | (0.90) |

The bids are primarily intended to deal with:

- higher than forecast increases in pay and allowances negotiated by the Treasury;
- growing pressure on our existing visa regimes and the cost of introducing new ones for Turkey and the Maghreb;
- important additional security works;
- initiation of a cost effective relocation from central London;
- the need to maintain adequate health and training programmes.

The British Council are facing some similar pressures on their own costs: a bid for resources to address their problems is contained in paragraph 13.

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4. My first bid, for pay and allowances, reflects the higher than forecast level of settlements negotiated by the Treasury with the unions.

- Last year we assumed a pay factor of 6.0% for 1989/90: the reality is that the full year increase in our pay bill will be at least 8.9%.
- The Treasury's own proposal for an increase in pay for security guards will, if implemented, cost us some £0.8m p.a.
- COLA revisions will cost some £0.6m p.a.

5. These represent major new hazards over which the Diplomatic Service has no control. They could not be absorbed within our existing running costs, which are already hard-pressed. Since we established last year that the Diplomatic Service should be adequately funded to carry out its agreed tasks, I must ask for extra provision to meet these unexpected extra costs. We have already set in place a system to ensure that unforeseen changes in foreign exchange rates do not force unplanned alterations to our activities (last year it saved the Exchequer over £22 million). Similarly, we need to ensure that unforeseeable changes in centrally negotiated pay and allowance levels do not disrupt the carefully prepared plans we discussed last year.

6. My second bid reflects the cost of increasing demand on our existing visa regimes and the need to introduce new ones for Turkey and the Maghreb. We are in touch separately about the extra provision needed for the latter, and I hope that we will be able to convert this bid into an agreed one by the time of our Survey bilateral in the Autumn.

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7. My third bid, for additional security work, reflects the continuing growth in the threats of terrorism and espionage. In particular I draw your attention to:

- the proposed development costs of our new Embassy in Moscow, where the American experience shows the true cost of making false economies;
- the need to strengthen still further our people and buildings against terrorism, including a new threat posed by the drugs barons in Latin America;
- the Foreign Office share of Caldbeck, the Whitehall intelligence communications network;
- improved standards for security locks on buildings and containers imposed by Cabinet Office and the Security Service.

8. My fourth bid, for a major redevelopment and relocation at Hanslope Park outside London, is fully documented elsewhere. The programme, which has been subjected to full investment appraisals, will generate major gains in terms of staff recruitment and efficiency. Subject to adequate funding, we intend to transfer from Central London some 245 jobs, many of which will in due course be filled by Home Civil Servants. This will result in greater long-term stability and expertise, and significantly lower wage costs. I hope that we will be able to agree on this sensible contribution to the Government's overall strategy on relocation.

9. My fifth bid, for health and training, reflects our commitment to provide staff world-wide with adequate health facilities against a background of remorselessly deteriorating health care in the unpleasant and unhealthy environments where many currently serve. The radical reorganisation of our

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health facilities already under way is part of our obligation to provide proper health care for our staff and especially their families. Health obviously costs money, but this is an area where I am not prepared to stitch and make do. We currently spend a modest £1.6m. p.a. on health care, and frankly we need more. On the training front, the supporting material shows the need to strengthen our commercial, IT, visa and language training. I attach special importance to this, since the activities covered are at the sharp end of the services that the Diplomatic Service provides.

10. Having secured our operating base with the bids set out above, my next objective is to maintain and develop our programmes. So my second set of bids is focussed on well-directed efforts at projecting ourselves and our interests overseas.

Maintaining and expanding programmes:

| | 1990/91 | 1991/92 | 1992/93 |
|--|--------------|--------------|--------------|
| | 24.00 (3.00) | 29.03 (0.52) | 22.17 (0.53) |

of which

| | | | | |
|------|--|--------------|--------------|--------------|
| VI | UN peacekeeping | 4.17 (-) | 3.72 (-) | 3.55 (-) |
| VII | Education and related programmes (incl. AUS programme budgets) | 14.41 (3.00) | 12.27 (0.52) | 12.57 (0.53) |
| VIII | British Council operating and relocation costs | 3.00 (-) | 10.39 (-) | 3.17 (-) |
| IX | Military/Police Training | 2.42 (-) | 2.65 (-) | 2.88 (-) |

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11. My sixth bid, for UN peacekeeping, is straightforward. We have already agreed on funding for UNIIMOG and UNAVEM, and the bid simply reflects the figures carried forward. The UK contributions to these forces, and to UNTAG (with which I deal later), have brought disproportionate advantages. They have:

- secured the high reputation of our armed forces (it was of course to us that the UN and the various parties turned for immediate help during the crisis over UN deployment in Namibia);
- confirmed the strength of our arguments that Southern Africa's problems need to be addressed by sensible, practical measures rather than by posturing. The pressure on us over sanctions has undoubtedly eased as a result.

12. My seventh bid is for additional educational, information and other programmes. The arguments I set out last year for strengthening these investments remain valid: indeed they have been confirmed by the effectiveness with which we and the British Council have deployed our resources in the last year. We can do a lot more with a little extra money.

- The British Council's Corporate Plan, a copy of which your officials have, has become a model of well-directed planning. The Council's objectives are now fully integrated with our own.
- We have engaged on a private consultancy basis a retired member of the Service with the specific task of raising private sector finance to match our own contributions to scholarship programmes.

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- Our AUS programme budgets are invaluable in providing the flexibility to address immediate needs in a cost effective manner. Attached to the Principal Finance Officer's letter is a note illustrating the precise benefits obtained by just one Under Secretary. The story is repeated for the others.

- As the Prime Minister has already observed, we must make the British exhibition in Kiev next year a really effective event around which she can accompany Gorbachev. The opportunities are likely to be at least as great at Kiev as those at the Seville Exposition for which you agreed to provide substantial additional funding last year. And yet the costs of participation there will be a fraction of those at Seville.

13. My eighth bid is in respect of the British Council's operating and relocation costs. The Council is facing the same squeeze on pay and rents as the Diplomatic Wing and unless adequate provision is made, its existing activities will have to be curtailed. Its requirements are fully quantified in the supporting material. Like us, the Council has elaborated a sensible, cost-effective relocation plan which will produce long-term savings.

14. My last bid is for additional military aid and police training.

- Our military aid programmes continue to be widely welcomed and respected. The value of this was amply confirmed during the Prime Minister's recent visit to Africa and by her offer of increased military assistance to Mozambique. The relatively small sum we currently devote (some £18 m. p.a.) is a remarkably economical way of fostering long-term relationships with military authorities throughout the world which

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can generate handsome returns in terms of political influence and military sales. A small (13%) cash increase, precisely targetted, is sound business.

- You will also see that we have devised a modest plan to close some gaps in police training which, for reasons of policy, the ODA have been unable to fill themselves.

15. In addition to the formal bids, I have a number of contingency requirements which do not constitute formal proposals at the moment. Even though the figures are mostly very speculative, we agreed in our bilateral last September that it would be useful to identify these as far in advance as possible.

They are:

CONTINGENT REQUIREMENTS:

| | | | £m |
|---------------------------------------|-----------|----------|---------|
| | 1990/91 | 1991/92 | 1992/93 |
| | 15.72 (-) | 7.60 (-) | - (-) |
| of which | | | |
| X UN Peace-keeping (UNTAG, W. Sahara) | 15.22 (-) | 7.60 (-) | - (-) |
| XI Commonwealth Secretariat | 0.50 (-) | - (-) | - (-) |

16. Full details are set out in the Principal Finance Officer's letter. I do not propose to dwell at length on them other than to note in addition the continuing problem of Vietnamese boat-people in Hong Kong about which I have written to you separately. We are, of course, doing everything we can to control an increasingly serious situation, but I cannot rule out the possibility that further money will be needed to cope with the influx.

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17. Finally I should mention manpower. It is our intention to:

- increase our information staff by some 18 officers and transfer about 65 posts from COI. This will be funded from a reduction in the amounts we currently pay for COI services. Consequently, there will be no increase in running costs. Indeed we expect significant efficiency gains which will enable us to improve the quality and quantity of our information effort;
- we will need to increase our manpower by some 38 UK based staff when extra visa regimes for Turkey and the Maghreb are introduced. In addition, we will have to employ from 15 to 30 more staff to handle increased demand on our existing visa regimes.

19. The separate letter from my Principal Finance Officer gives a full account of the bids. They are essential if we are to maintain our existing activities and seize new opportunities. Once again, they are tiny in comparison with general Government expenditure or, I dare say, the bids of other Departments. But they are important if we are to continue working towards an adequately staffed, efficient Diplomatic Service with the means to advance our British interests abroad.

20. I am copying this minute to the Prime Minister.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

25 May 1989

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