



Foreign and Commonwealth Office

CONFIDENTIAL AND PERSONAL London SW1A 2AH

13 November 1990

*Prime Minister*

*Dear Charles,*

*The fewer the reserves, the more we will have to rely on the skill*

FCO Diplomatic Wing: Consequences of 1990 PES Round

You may like an informal account of the consequences of this year's PES settlement for the Diplomatic Service.

*of the diplomats  
CDS 13/11*

Our baselines this year are already under pressure. The Chief Secretary asked the Foreign Secretary earlier this year to absorb about £10 million to pay for UN peace-keeping in Central America, military training for Namibia and unavoidable spending on Vietnamese boat people. We are also seeking to absorb the effects of risen inflation on our running costs - about £17 million on a total of £420 million. All this has forced us to make significant cuts, particularly in the local budgets of posts abroad, in maintenance of buildings abroad and in capital programmes for the overseas estate, communications and IT. We will have to make good this neglect of our infrastructure. This year's PES, however, provides little scope for this.

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The settlement for the next three years will leave us even more constrained. Our original bids (running costs in brackets)

127.3 (48.5)                      169.2 (75.8)                      255.5 (102.3)

would have provided enough to allow us to continue to operate a worldwide service on the present basis, to take advantage of the important new opportunities arising from the extraordinary and fundamental changes over the past year or so in the international scene, in particular in Eastern Europe, and to launch some much needed capital projects. Our IT and communications are out of date and have been underfunded for years. Major estate projects are necessary over the next few years in Moscow, Hong Kong and Berlin. At Nigerian insistence, we also have to move the High Commission from Lagos to Abuja. And we need to complete the programme on the Old Public Offices here in London.

As it is, our settlement this year

75 (32)                                      105 (50)                                      125 (55)

will provide only a little extra money (about £7 million a year) for high priority British Council activities in Eastern Europe (and perhaps Hong Kong) - about the minimum the Council



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reckon worthwhile. The Quai d'Orsay have had their budget increased in real terms by 7% precisely in order to exploit these new opportunities; we are having to retrench and leave the field to others. We are left with no new money to continue anti-narcotics work in Colombia (again a programme initiated by the Prime Minister) or the military training in Namibia. Capital programmes will have to be cut drastically. We are ruling out early (and otherwise cost-effective) investment in property in Berlin. We have deferred the main Moscow project until after the present PES cycle (we have no money for Morisa Toreza). And we have rescheduled the politically sensitive Hong Kong building project. But our more severe difficulties will be in meeting our basic running costs, where we face a gap of nearly £30 million in 1993/94.

If no additional funds can be secured in next year's PES, a substantial downgrading of our overseas representation will be unavoidable by 1993/4.

To bridge the projected shortfall in 1992/3 and 1993/4 we will need to make substantial cuts in 1991/2 in order to generate savings for subsequent years. Although the Diplomatic Wing budget (just over £900 million this year) may look substantial, this is largely illusory. For example, obligatory subscriptions to the UN and other international organisations are running at some £94 million. The BBC World Service takes up another £145 million and the British Council £76 million. To reduce either of these would cause a major row with their influential lobbies. We carry some £50 million on our votes for other government departments. Programmes for scholarships (£26 million) and military training (£26 million) are largely committed in advance: to turn away students in the middle of courses, or disrupt training schedules, would cause political damage. We are left with the £450 million we have to run, maintain and staff the Department at home and the worldwide network of 210 Posts abroad to take the brunt of the necessary cuts. Even here, much of this provision supplies the infrastructure for other Departments' activities overseas - the MOD, Home Office, the agencies and so on, as well as essential everyday activities - visa issuing, trade promotion, and consular protection. And the sums take no account of the £40 million in receipts from consular and visa fees which we pay back to the Treasury each year.

So cuts on any effective scale will mean closing some posts, not just trimming staff here and there. I am writing to you separately about the first of these (Monrovia). Since each £1 million effectively buys three small posts, such cuts are bound to be visible and provoke comment. It is still too early to say how many posts will be affected. We will, of course, keep them to a minimum by making what savings we can elsewhere. The Foreign Secretary is firmly of the view that we should maintain a global diplomatic presence if at all possible, on the lines of the French and the Germans (though

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their totals already exceed ours). Anything significantly less would risk placing us on a par with the Spanish and Italians, reducing our standing in the world below what he believes the Prime Minister, Parliament and public opinion expect.

Against this background, there is no possibility that we could absorb major new requirements, for example over the Gulf, the Soviet Union, new UN peace-keeping forces (eg Cambodia) or Vietnamese boat people. Indeed, the Foreign Secretary's agreement with the Chief Secretary is on the understanding that most of these will need to be funded separately.

ODA

Turning to the ODA, we have now agreed provisions for eastern and central Europe to cover the commitments the Government has made to provide Know-How, and to the new European Bank for Reconstruction and Development, including the costs of hosting it in London. The Foreign Secretary has accepted that he should contribute from his agreed provisions to funding Know-How for the Soviet Union, but this will constrain what we can do next year in the other countries.

The addition to the Overseas Aid baseline for 1991/2 was more than offset by the cost of the UK share of EC assistance to the Gulf front line states. This, combined with other increases in multilateral aid contributions, to which we are already committed, means that for 1991/2 we expect to have to reduce bilateral aid by about 8% in real terms.

Nor will the settlements for later years enable us to reverse that trend. In particular, we face rising contributions to EC aid programmes through Lome and the budget. Our Community partners are generally in favour of a growing EC programme whatever we say. Their more substantial aid budgets mean that they do not face the prospect of their bilateral programmes being steadily eroded as a consequence.

*Jans.*  
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