



PM/84/87

PRIME MINISTER

Expenditure on Overseas Activities

1. When I came to the FCO last year I commissioned an exercise to examine the expenditure overseas for which this Department is responsible. You and the other recipients of my minute may find it useful to see the results of this review in the attached paper. The paper seeks to provide an analysis of recent trends and could serve as background against which decisions can be taken regarding future expenditure in this field.

2. I am sending copies of this minute and the paper to The Lord President, The Chancellor of the Exchequer, The Secretary of State for Defence, the Chief Secretary to the Treasury and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'G. Howe'.

GEOFFREY HOWE

Foreign and Commonwealth Office

28 May 1984

## EXPENDITURE ON OVERSEAS ACTIVITIES

1. The resources which the Government has made available for official activity overseas, other than for defence, have declined since it came to power in 1979. This paper describes the effects which decisions taken by this government, in line with its economic strategy, to cut FCO expenditure have had when combined with the unplanned reductions imposed by the effects of overseas inflation and the varying international value of sterling. The resulting volume of activity and pattern of expenditure has changed in ways which were not necessarily intended or foreseen. The paper also shows how the demand for many of the Government's overseas services - from Ministers, Parliament exporters and the general public - has continued to increase over the period. It provides background relevant to future decisions about the allocation of government expenditure.

2. This paper considers the four Votes for which the Foreign and Commonwealth Office is accountable, and the ODA's expenditure other than on pensions and superannuation. In 1984/5, some £1.7 billion will be devoted to these activities. About three-fifths of this is in the aid programme, where the bilateral

component is, of course, under severe pressure; less than one-fifth is accounted for by overseas representation. The total of £1.7 billion can be compared with UK visible exports in 1983 of some £60 billion; invisible credits to the UK in the same year of over £30 billion; and the rapid growth in our overseas investment portfolio since the abolition of exchange controls. These overseas interests are vital to the prosperity of the UK and they depend on the maintenance of a favourable international climate generally and good bilateral relations between HMG and foreign governments in particular. The government therefore needs to ensure that sufficient resources are devoted to the protection and promotion of British overseas interests.

#### Trends in Spending Overseas: 1979-1984

3. Table 1 below shows the decline in the level of UK government expenditure on overseas activities in this period, and also how the internal balance of FCO/ODA expenditure has changed:

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Table 1

Level of Expenditure  
(£m net, constant 1984/5 prices)

	1978/9		1984/5		% change
	£ million	% of total	£ million	% of total	
Aid	1283.4	68%	1104	64.3%	- 14%
Overseas (1)					
Representation	343.4	18.2%	328.7	19.1%	- 4.3%
BBC External Services	66.9	3.5%	78.5	4.6%	+ 17.3%
British Council (2)	82.2	4.4%	75.3	4.4%	- 8.4%
Overseas other: comprising	112.1	5.9%	131.1 (6)	7.6%	+ 16.9%
Subscriptions (3) to International Organisations	41.4	2.2%	37.7	2.2%	- 8.9%
Peacekeeping	21.6	1.1%	27.9	1.6%	+ 29.2%
Military Aid	5.4	0.3%	13.0	0.8%	+141%
Special Defence Aid (Zambia)	15	0.8%	-	-	
Grants in Aid	3.9	0.2%	4.2	0.2%	+ 7.7%
Information (4) Services	5.7	0.3%	14.3	0.8%	+151%
COI (5)	16.2	0.8%	14.9	0.9%	- 8%
Scholarships	-		8.9	0.5%	-
General services (including Distressed British subjects)	2.9	0.2%	5.3	0.3%	+ 82.8%
<b>TOTAL</b>	<b>1887</b>		<b>1717.6 (6)</b>		<b>- 9%</b>

Notes

(1) Adjusted for changes in content of programme, including transfer of Passport Office from 1984/5.

(2) Excluding the British Council's own General Receipts, but including ODA contributions.

(3) Those for which FCO (Diplomatic Wing) is responsible - chiefly UN, Council of Europe, WEU, OECD.

(4) Mostly the cost (current and capital) of relay stations operated on behalf of the BBC.

(5) 1984/5 figures exclude elements in respect of PRS, superannuation, and VAT of approximately £5m.

(6) Including the sum referred to in note (5).

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Diplomatic Wing Spending and Mandower

4. The table shows total spending under the FCO (Diplomatic Wing)'s Votes overall to have remained virtually static in real terms. But to compare figures over the period, the GDP deflator and PESC uplift factor for 1984/5 have been used. On average overseas inflation has, however, been higher than that of the UK over the period and particularly in the later years. This means that the table understates the reduction in the volume of services which a constant level of resources have been able to provide. Volume has further suffered as the result of the decline in the value of sterling.

5. Within the static level of overall expenditure there have been some important changes in the pattern of Diplomatic Wing expenditure. First, the decreases. Expenditure on overseas representation - ie political work, trade promotion, information and consular work - has declined by 4.3%. The British Council's budget has suffered a reduction of 8.4% in real terms. Because largely carried out abroad these aspects of the Diplomatic Wing's work are those most vulnerable to the vagaries of overseas inflation and the figure of 4.3% reduction conceals a larger decrease than this in the actual volume of services performed. Calculations of this sort are difficult but a rough estimate indicates that in 1983-4 these technical factors resulted in a

loss in volume equivalent to £10 million. (In 1984-5 the agreed figures for overseas representation went some way to accommodate these factors.) Finally we have made economies by reducing, as the result in part of rigorous scrutiny and cooperation from other governments, the expenditure of those international organisations for which the FCO (Diplomatic Wing) is responsible, and in consequence it has been possible to reduce HMG's contributions by 8.9%.

6. By contrast, there have been increases in expenditure in the following areas:-

(a) Peacekeeping activities. The extent of peacekeeping activity has varied over the period. Costs to the FCO have however risen by 29%, the chief cause being the decision of the government that services supplied by one department to another should be on a full costs basis. To illustrate the point, the cost to the FCO budget of the UK's contribution to the UN force in Cyprus increased so much that a PESC adjustment of £14.3 million was made in 1981/2.

(b) Military aid expenditure. There has been a significant increase both in expenditure and in the volume of military training funded by HMG. Loan Service Personnel deployed overseas have risen from

25 in 1978/79 to over 100, while the number of overseas officers trained in the UK has remained roughly the same.

(c) The FCO's scholarship programme. This started in 1983 and is designed primarily to benefit students from Malaysia, Cyprus, Hong Kong and other Dependent Territories. It is designed to provide government funds to assist certain overseas students now being charged on a full costs basis. In some measure, this represents a transfer of financial responsibility from the DES to the FCO.

(d) Expenditure on BBC External Services and the relay stations which are operated on their behalf by the FCO. This increase is largely the result of capital expenditure relating to the ten year audibility programme which the government agreed in 1981 - and which (as so far executed) is still far from sufficient to secure reasonable coverage.

Overall, the BBC has received a 29% real increase in funding (including expenditure on the relay stations) since the government came to power. A significant part of this has been due to rising real costs throughout the domestic broadcasting industry; it is unlikely that the review of the External Services, which we are working to get underway, will do more than hold the position.

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7. Much diplomatic work is manpower intensive. In line with government policy, Diplomatic Service manpower has nevertheless declined over the period. This reduction came against the background of earlier manpower reductions. Between 1968, when the Foreign and Commonwealth Offices were combined, and 1979, the number of posts in what is now the Diplomatic Wing were reduced by 10.7%. Between 1979 and 1984, there has been a further reduction of 10.2% with another 5.2% reduction in prospect to 1988. The current worldwide establishment is now 6722. Within this total, the number of officers serving at home of Principal (DS5) grade and above is only 292, 12% less than 5 years ago.

Spending on Aid and ODA Manpower

8. Economies have been made in ODA manpower which has gone down by 23% since 1979. But expenditure has also been reduced. The aid budget has fallen by 14% in real terms since 1978/9; and the pattern of expenditure has also changed significantly. The UK's financial commitments under European Community and other multilateral programmes have increased by 30% in real terms to take 42% of the total aid budget, while aid to the Dependencies has also increased by 33% to 3.8% of the total aid budget (Gibraltar and the Falklands accounting for 70% of the current spending in the Dependencies). In consequence, bilateral country

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programmes have suffered a real reduction of over one-third, and on present expenditure estimates they are expected to fall further in the future. On this basis as a proportion of total aid expenditure they will have fallen from 79% in 1978/9 to 48% in 1986/7. Multilateral aid can be adjusted only very marginally in the short term (and only with very considerable difficulty in the longer term). Any further financial restraint is therefore likely to continue to bear heavily on the bilateral aid programme. The UK now devotes a lower proportion of GNP to aid than the OECD average.

#### International Comparisons

9. UK expenditure overseas can be compared with that of countries such as the US, France and FRG. Although they are all richer than the UK, (the US and FRG substantially so) we expect to co-operate politically with them, and compete in the same league. While only the US has increased its expenditure on defence faster than the UK (Charts 1-3 attached), all 3 countries have increased their spending since 1978/9 on both aid and overseas representation. When civilian expenditure less aid is taken into account the 1983/4 position was as follows: UK - £588 million, France - £708 million (excluding cultural work) and FRG - £783 million (excluding commercial work). This means that French expenditure on these activities was higher as a

proportion of GDP than ours, and the German spending on the same basis is only slightly lower, even though much of their trade promotion is in the hands of the private sector. The larger size of their total aid budgets enables the French and Germans to devote a markedly higher proportion of their total aid programmes to bilateral programmes than the UK is now able to do.

#### Overseas tasks

10. Meanwhile, the task of protecting and promoting the national interest abroad has increased. While few countries have become independent since 1979, since 1967 their numbers have increased from 128 to 167. An increase in the spread of HMG's bilateral diplomacy has been inevitable. At the same time multilateral diplomacy has also increased significantly, affecting many departments but in particular the Diplomatic Service. Since 1972, the number of permanent multilateral delegations has increased from 8 to 10 and the total number of diplomatic staff in these Missions has had to be increased by nearly one-third. This has coincided with a 20% decline in Diplomatic Service manpower (including locally employed staff but excluding the manpower implications of the transfer of responsibility for the Overseas Estate).

11. Other demands on British missions overseas have increased during the period. Parliamentary Committees

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have doubled the number of days spent abroad since 1978 to 156. Consular work has greatly increased as a direct consequence of the rise in visits abroad by British nationals which almost doubled between 1977 and 1982 to 20.6 million. Similarly, the number of foreign holidays taken by UK residents increased by 48% in the period 1979 to 1983.

12. The use made by exporters of the British Government's overseas commercial services has risen steadily, while the resources devoted to commercial work have been reduced. The following table shows the trend up until 1983.

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Table 2

The Level of Commercial Activity in Posts Abroad  
Compared to Manpower Levels

	1979	1980	1981	1982	1983	% change since 1979 (or 1980)
Market Information	NA	42,849	53,623	58,983	63,481	+48.2
Enquiries						
Firms taking part in Outward Missions	NA	4,909	5,609	5,875	7,038	+43.4
British Business Visitors	65,998	65,199	65,585	72,939	77,065	+16.8
Commercial Officers in Post	648	609	592	591	585	- 9.7

The demand for commercial services can be expected to increase further as the world economy moves out of recession. The DTI forecast an increase of 5% in the demand for BOTB services in 1984.

13. Since 1979 there has been a 20.9% reduction in information staff overseas and the resources of the COI devoted to overseas activities have declined by 8% in real terms. The need to win support for HMG's policies by

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persuasion has increased and the demand for effective information work remains high.

Effects of the decline in resources available

14. The activities under review are not readily susceptible to cost benefit analysis. The product is not often measurable and it is therefore difficult to assess whether value for money is being obtained from a given activity. It is still, however, possible to point to ways in which both the quality and quantity of services and our relations with other governments have been affected by changes in overseas expenditure.

- (a) The volume of political, commercial and economic information which posts have collected, analysed and reported has declined. The requirements for bilateral and multilateral diplomacy have increased, but the UK's diplomatic coverage has diminished. While the number of countries covered by our diplomatic missions has risen from 136 to 164 since 1968, the total number of missions abroad has, through the closure of subordinate Posts, declined in the same period from 252 to 215 (including 2 Central American posts about to be reopened on a smaller scale than before). Since 1979, 20 Missions with UK based staff

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have been closed, and 3 have subsequently been re-opened.

- (b) The number of consular officials (and consular posts) has declined as the demand for their services from visitors and tourists has increased. This means that the quality of consular services has been reduced. Officials are frequently not able to devote the time to individual cases that the problems merit. The time available for such important activities as prison visiting has also been reduced.
- (c) Since commercial officers have declined in number and are still required to respond to a wide range of demands from exporters, initiative work, which should be the foundation of their local knowledge, has been reduced. This is likely to carry long-term implications for the quality of service provided to exporters.
- (d) The reduction in information staff and financial resources devoted to information work has meant that HMG is less well equipped than formerly in the propaganda battle. For example, during the Falklands crisis, the FCO had only one full-time information officer in

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the whole of Latin America. The COI has also had to cease a number of activities in support of exports.

- (e) There have been strains with Britain's aid recipients, including India and Bangladesh. HMG's ability to assist British exporters in markets where aid is an important factor has also been reduced, at a time when many recipient governments have become more dependent on aid to maintain their level of imports. In contrast, our direct commercial competitors have increased their aid programmes, by between 4% (FRG) and 35% (France).
- (f) Savings necessarily made have on occasion had direct adverse consequences, as in the case of Malaysia's reaction to, inter alia, increased student fees, which brought reprisals against British commercial interests.

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CHART 1: EXPENDITURE ON OVERSEAS REPRESENTATION  
(Real Terms: 1978/79 = 100)

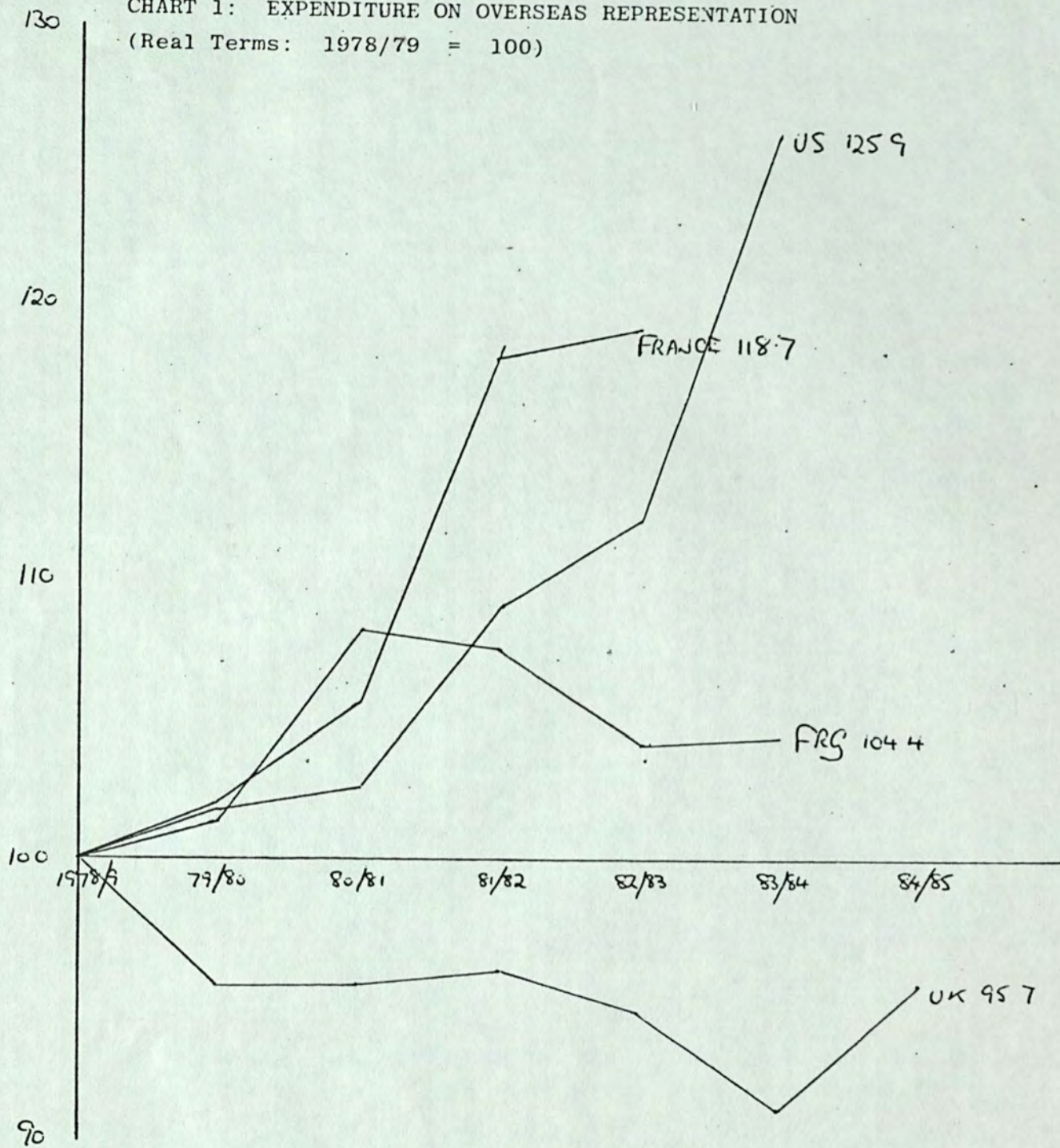




CHART 2: EXPENDITURE ON AID

(Real Terms: 1978/79 = 100)

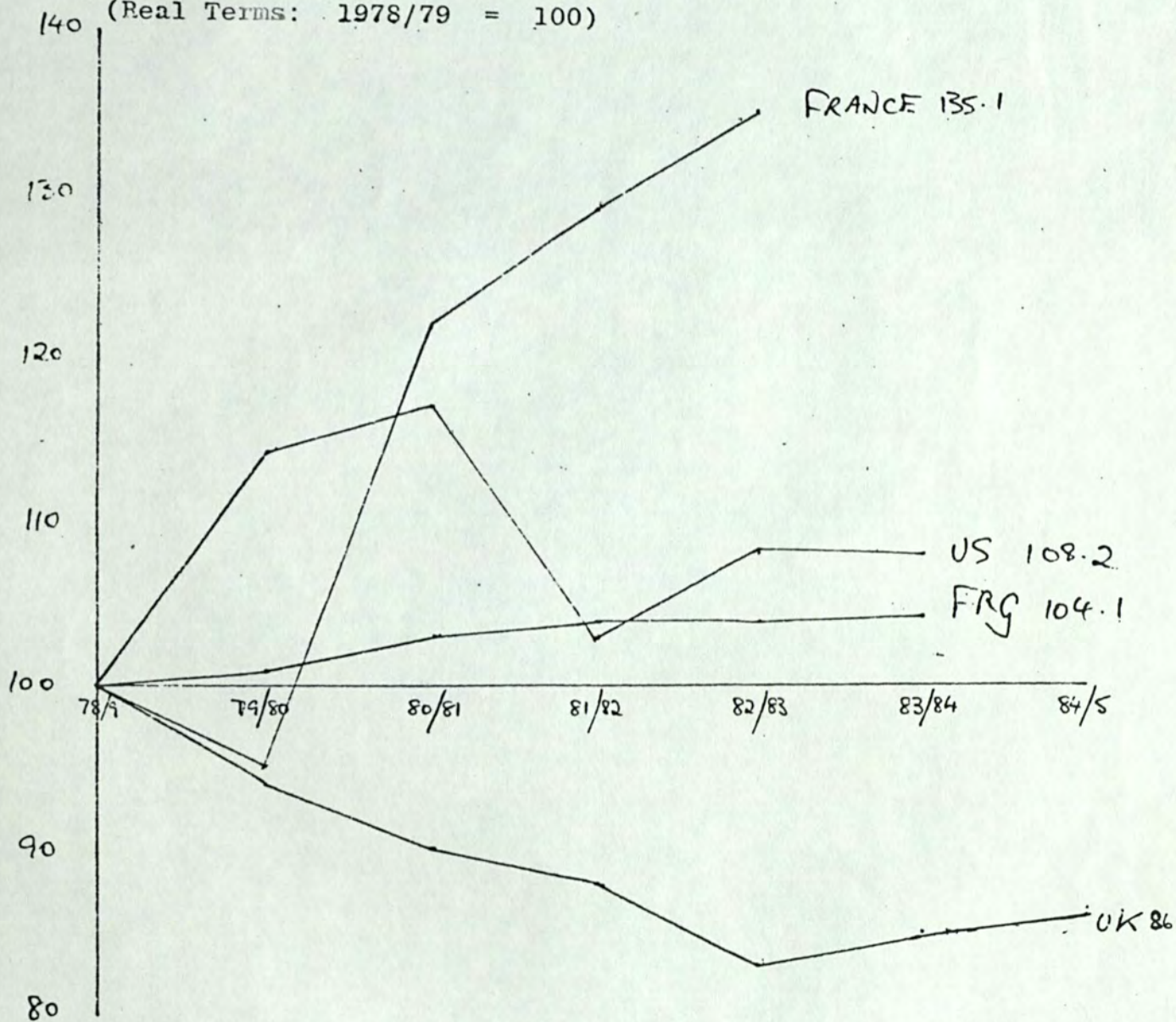


CHART 3: EXPENDITURE ON DEFENCE  
(Real Terms: 1978/79 = 100)

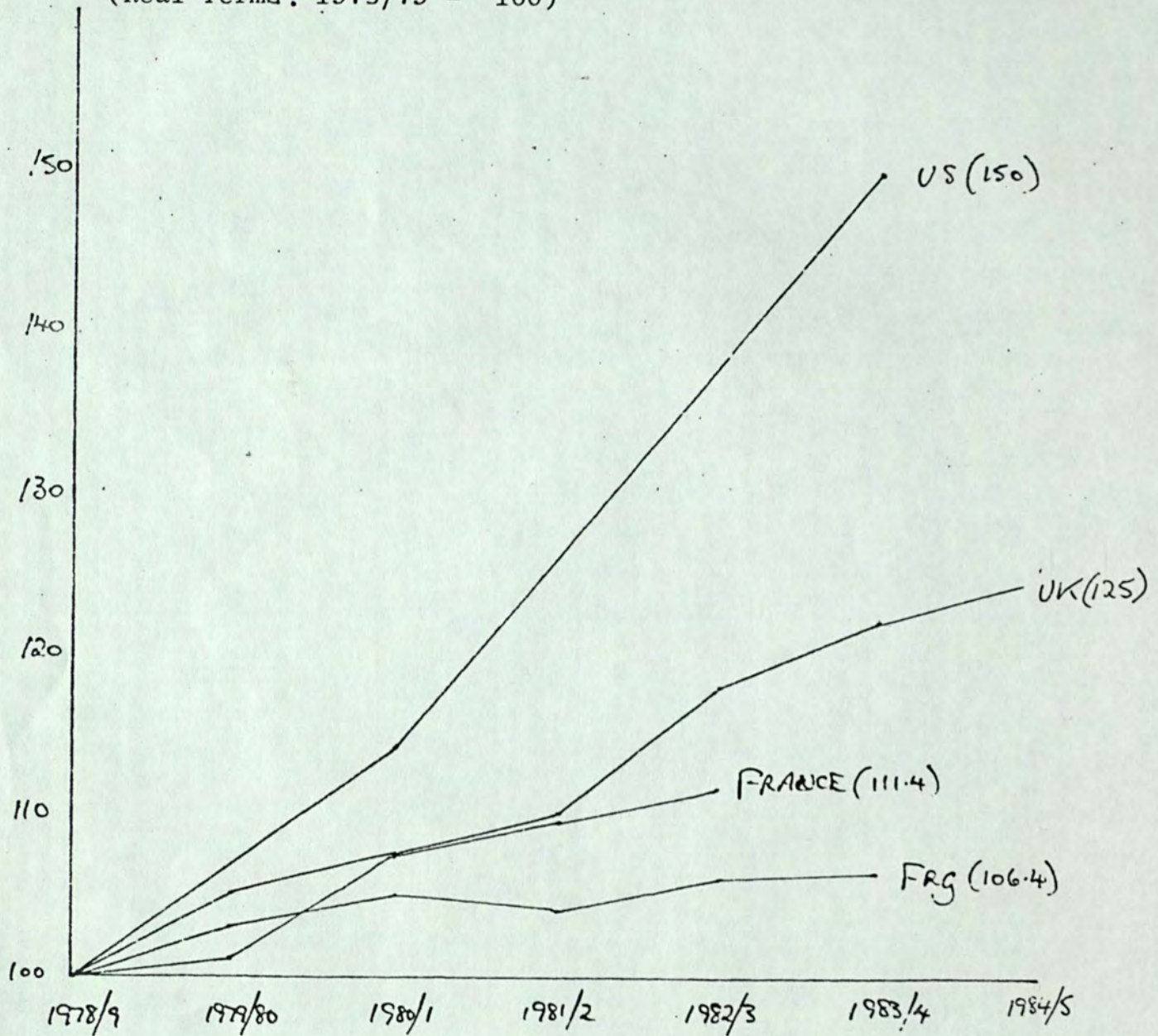


CHART 4: TRENDS IN EXPENDITURE ON DEFENCE AND OTHER OVERSEAS EFFORT  
 (Real Terms: 1978/79 = 100)

