

EPC

Prime Minister.

You may like to discuss this at your next meeting with the Foreign Secretary?

PM/84/86

A.F.C. $\frac{29}{5}$ PRIME MINISTER

Yes no

Expenditure on Overseas Activities

1. You will have seen my minute of today's date copied to certain colleagues enclosing a paper on the overseas expenditure for which this Department is responsible. I should like to add some fuller comments which at this stage I am copying only to Sir R Armstrong.
2. The paper shows how the financial resources available to the Foreign and Commonwealth Office have declined, both because of planned cuts in public expenditure and because of the effect of overseas inflation, which of course is higher than in the UK, on a budget most of which is cash limited. In the last couple of years the decline in the international value of sterling, particularly in dollar terms, has also had a further adverse effect on the real resources available to the FCO and thus the volume of activity made possible.
3. The paper also shows that there have been management successes. Manpower in the diplomatic wing has gone down by 10% and that in the ODA by 23% since we came to power. A number of Rayner scrutinies have identified ways in which the FCO's operations could be improved and these have been acted on. Full advantage has been taken of the government's Financial Management Initiative to exercise tighter control over this Department's costs. Janet Young and I have, of course, tried to bring our previous departmental experience to bear on all this.
4. The impact of this upon overseas activity has been uneven. The effects have been felt most in the aid programme and in services performed by British Missions abroad. In both cases, the volume of activity has declined. At the same time, the cost of other foreign policy activities has increased - notably peace-

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keeping, the costs of which (to the FCO) have risen by 29% since 1979 - and new programmes have been started such as the FCO scholarships for overseas students. Adverse effects on the British Council have been partly compensated for. It has suffered a cut in voted funds but has been able in part to compensate for this by increasing income from paid English language teaching. Finally, it is worth noting that the BBC External Services have fared relatively well since 1979 with a total increase in financing for their activities, including relay stations operated on their behalf, of 29%; but they still have some way to go, if they are to be as strong as we should like.

5. Of course, such changes in the pattern of expenditure are not by any means necessarily bad. Every government department must be flexible in the way it responds to changes in demand. But I have become concerned at some of the longer term implications of the changing pattern.

6. This government continues to maintain a global foreign policy. I am sure this is right. We still have extensive responsibilities round the world. To reduce them significantly, and to become in effect a regional European power, would decisively alter - for the worse - our relationship with the United States. This in turn would have profound implications for our position in Europe itself, and for our ability to remain secure and to prosper in the world. It is worth noting, and is a mark of the success of this government's economic policies, that quite apart from our extensive export trade we now have a substantial investment portfolio overseas to protect. It follows that we need to sustain the effectiveness of our activity in both aid and diplomacy. We must also ensure that a correct balance of effort is kept between our expenditure on defence, which has grown - rightly in my view - since we have been in power and the resources devoted to civilian expenditure to protect and promote our interests overseas.

7. The paper notes that British development assistance, both multilateral and bilateral has dipped below the OECD average.

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Because of our multilateral obligations, which continue to increase, the bilateral aid programme has been particularly hard hit and, if existing trends continue unchecked, will suffer further. This is worrying and could itself lead to political difficulties with some of the recipients, as well as affecting prospects for our exporters. I do not think that it is practical to suppose that as a way of pulling the balance back towards bilateral aid we can reduce our multilateral contribution further. It is against this background that, as Peter Rees foresaw last year, I have proposed increases in allocations for the aid programme for 1986/87 and 1987/88.

8. As for the diplomatic service, I am concerned that resources are now so stretched that the quality of the service which it can provide to government itself as well as to Parliament, businessmen and members of the general public requiring assistance may be in danger of deteriorating. The scope for minor initiatives which can lend quality to the performance of government is severely curtailed. I am satisfied that any further expenditure cuts would have to be met by reducing somewhere the scope of the services now provided. This would not be welcome in the House. Nor, I think, could we regard it as acceptable.

9. I should be happy to talk further to you about this. At this stage, I am copying this minute only to Sir Robert Armstrong. In due course a discussion in OD might be worthwhile.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE