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SECRET
SUBJECT

NOTE FOR THE RECORD

When the Foreign and Commonwealth Secretary met the Prime Minister this morning they discussed a number of points about FCO expenditure.

The Foreign and Commonwealth Secretary described the difficulties caused for FCO expenditure by fluctuations in exchange rates. He had proposed to the Chief Secretary that where the FCO gained from such fluctuations, money should be returned to the Treasury, but where they lost they should automatically be compensated. This was important because expenditure overseas accounted for some 40% of FCO expenditure and fluctuations simply could not be accommodated within the FCO budget. The Prime Minister said that she fully understood the point. The procedure described by Sir Geoffrey was clearly sensible. Sir Geoffrey went on to describe his ideas for better management of the diplomatic estate overseas, particularly freedom to recycle assets without being constrained by the annual budget process. The Prime Minister commented that this was eminently reasonable and a system which required the FCO to pay over any gains made from the sale of land or buildings to the Treasury was "ridiculous".

Sir Geoffrey also told the Prime Minister that through an arrangement with Thomas Cook, the FCO had managed to save some £600,000 annually on its travel budget. He proposed to use this to finance a third holiday journey for children overseas and perhaps also an additional leave journey in certain posts. The Prime Minister said that she entirely agreed: unless one were able to use such savings constructively there would be no incentive to make them.

C.D.R.

20 June 1984

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