

PRIME MINISTER

FCO EXPENDITURE

You agreed to a meeting with the Foreign Secretary and Chief Secretary to discuss the problem of exchange rate fluctuation and overseas inflation, and also the financial management of the diplomatic estate overseas. The meeting had to be postponed and there are difficulties in arranging another. Anyway, in the light of further papers, I wonder whether the simplest thing would not be for you to minute on some aspects and leave others to be settled in the autumn. ✓

(a) Exchange rate fluctuation and overseas inflation

The Foreign Secretary's views are at Flag A, the Chief Secretary's reponse at Flag B, the Policy Unit's views at Flag C.

It seems to me that the Chief Secretary is virtually conceding what the Foreign Secretary wants for this year.

A possible compromise on the problem for the future is to introduce greater buying of currency forward; and to treat additional expenditure bids as a result of exchange rate changes as reflecting revised economic assumptions rather than policy changes.

(b) Diplomatic estate: asset recycling and end-year flexibility

The Chief Secretary points out reasonably enough that there are no specific proposals for this on the table yet. He is concerned that a general scheme for asset recycling is almost certain to add to public expenditure. The problem cannot be addressed properly

until there are some specific proposals to look at. But you did earlier tell Geoffrey Howe that the basic principle of what he proposed was sensible. The Public Accounts Committee take the same view. You might therefore encourage the Foreign Secretary to make specific proposals as soon as possible.

(c) Moscow Embassy

This is a separate problem, and best discussed further between the Foreign Secretary and the Chief Secretary in the PESC context.

Should not

I attach a draft which might avoid the need for a meeting at this stage. But if you still prefer to have a meeting we may be able to squeeze it in at the beginning of August and the draft could serve as a quarry for that.

No

C.D.P.

20 July 1984

to Chief Secretary

DRAFT LETTER FROM CHARLES POWELL TO ~~PRIVATE SECRETARY,~~
FOREIGN AND COMMONWEALTH OFFICE

RANASJ

FCO EXPENDITURE

(!)

The Prime Minister has seen the ~~ever multiplying~~ minutes *exchanged*
between the Foreign Secretary and the Chief Secretary on
this subject, *ending with the Chief Secretary's minute*
of 20 July.

As regards exchange rate fluctuation and overseas inflation,
the Prime Minister agrees with the Chief Secretary that
buying currency forward could help alleviate the problem.
Beyond this, while the Prime Minister does not wish to see
any breaches of principle of cash planning, she thinks that
the Treasury should recognise the special circumstances of
the Foreign Office. She suggests, therefore, that
additional bids as a result of exchange rate changes should
be treated as reflecting revised economic assumptions rather
than policy changes. This treatment should not prejudice
finding some offsetting savings if possible.

On asset recycling and end-year flexibility, the Prime
Minister notes that no specific and detailed proposals have
yet been put forward. But she thinks the idea is in
principle a good one which will lead to better management of
the diplomatic estate overseas and therefore hopes that
proposals in this sense can be circulated quickly.

As regards the Moscow Embassy, the Prime Minister hopes that
this can be discussed further between the Foreign Secretary
and the Chief Secretary to find a solution.

*I am finding a copy of this
letter in Ken Appleyard in at FCO. cda.*

20 July 1984

Thanks - [Signature]