

PERSONAL

PRIME MINISTER

FOREIGN OFFICE

Antony Acland is coming to see you privately at Chequers tomorrow afternoon.

He wants to tell you what he sees as the likely operational consequences of the further cuts in FCO expenditure contained in the PES figures for 1986-8 (I attach the relevant section of the draft White Paper). He also wants to get some feel for where you believe cuts should be made, geographically and functionally, if choices have to be made.

FCO Expenditure

He will probably say that the PES figures for future years can only be reached by withdrawing British representation from certain areas of the world altogether e.g. Central America, French Africa, parts of Latin America. He will suggest that this could be politically damaging both domestically and in terms of our relations with the Americans who will show less interest in us if we give up a world-wide presence. He may also suggest that, to put it crudely, policy is being dictated by arbitrary expenditure cuts: it would be better to decide the policy e.g. by a discussion in OD and then tailor the means, reduced means if appropriate, to the policy.

Points which you might like to make are:

(i) the Foreign Office cannot be exempt from painful decisions on public expenditure. And these are likely to be even more painful for everyone next year than this.

(ii) you prefer to see a job done properly than effort too diffused. This points to not trying to be represented everywhere e.g. El Salvador. But you do want embassies to be properly housed and equipped where they exist. The

implication is that you would not shy away from further post closures if necessary.

(iii) is there not more to be done to reduce our involvement and representation in multilateral activities. UNESCO was a particularly glaring example. But are there not other institutions where we can make economies?

(iv) you wonder whether everything possible has been done to eliminate unnecessary functions and duplication of effort. For instance there seems to be much double-banking of staff (e.g. with Assistant Secretaries rewriting the work of Principals, and Under-Secretaries rewriting Assistant Secretaries) in the FCO than in some of the Home Departments. Is there not scope for more devolution of responsibility?

(v) the FCO should be prepared to divert resources if necessary from aid to overseas representation. This was difficult this year because of the coincidence with the Ethiopian famine and the feeling it aroused. But the Americans have taken and stuck to a policy decision to do less on overseas aid and more on defence/diplomacy.

(vi) you might agree to the idea of an OD discussion to set clear guidelines for the role and geographical scope of the Diplomatic Service in future, in the light of financial constraints.

FCO general

Beyond this, you might like to tell him some of the problems you have with the FCO and its work: the rather fuzzy and general nature of some of the proposals which come forward: the sometimes inadequate quality of drafting e.g. of messages: and other points you have reason to complain of.

FCO staff

You might take the opportunity to mention one or two

points which have been on your mind: your dissatisfaction with
Mr. Thomas: the future of Michael Alexander and David Goodall.

Substantive Foreign Policy Issues

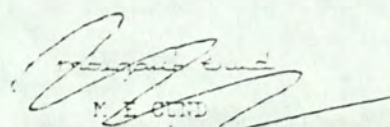
Current business you might mention includes Arms Control:
Northern Ireland: Falklands: your programme of foreign visits.

C.D.P.

4 January, 1985

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2. The gross aid programme is £1,205 million for 1985-86, consisting of the net overseas aid programme plus capital repayments. The net overseas aid programme in 1985-86 remains at £1,130, the same as shown in Cmd 9643 and £31 million higher than in 1984-85. In addition, sums equal to the repayments of capital on past aid loans are also available to be used as new aid grants or loans by the Overseas Development Administration; those due in 1985-86 total £75 million. The resulting gross aid programme is ODA's spending ceiling. It covers both provision in the Overseas Aid Vote (Class II Vote 8) and certain expenditure attributed to the aid programme, consisting mainly of the UK's share of overseas aid financed ^{from} ~~by~~ the European Community ^{budget}.


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3.2 Overseas Aid and Other Overseas Services

Table 3.2 £ million
1979-80 1980-81 1981-82 1982-83 1983-84 1984-85 1985-86 1986-87 1987-88

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
Foreign and Commonwealth Office—ODA									
2.5 Overseas aid (net aid programme) £	84	885	959	965	1,031	1,099	1,130	1,170	1,200
2.6 Overseas aid administration	14	18	19	19	25	25	27	30	30
2.3 Other external relations	5	60	69	75	82	85	92	90	90
Total	849	967	1,046	1,059	1,138	1,209	1,248	1,290	1,320
2.8 Public corporations finance £ £ £			-2	-44	14	14	14	10	
Total FCO (ODA)	849	967	1,044	1,015	1,152	1,223	1,262	1,300	1,320
Foreign and Commonwealth Office—Other									
2.1 Overseas representation	192	219	230	288	323	329	332	340	340
2.2 Overseas information	75	94	104	116	126	159	172	180	180
2.3 Other external relations	58	39	59	90	96	84	95	80	80
2.4 Military aid	7	10	10	13	13	12	13	10	10
Total FCO (Other)	332	362	403	506	558	583	612	600	620
Total FCO	1,181	1,329	1,447	1,521	1,710	1,806	1,874	1,900	1,930
2.9 Commonwealth War Graves Commission	7	8	8	8	9	10	10	10	10
2.9 HM Treasury			2	-1	-3	-3	-3		
2.7 Net payments to European Community institutions (excluding overseas aid)				3	11	831	898	790	790
Net payments to Community Budget	854	285	243	74	1,066				
Contributions to reserves and capital of the European Investment Bank	15	4	11	5	16	21	18	20	20
Grants received from European Coal and Steel Community	-13	-8	-15	-47	-45	-39	-41	-20	-20
Less									
Contributions to Community Budget expenditure	-41	-60	-86	-102	-92	-123	-125	-130	-140
on overseas aid included in programme 2.5									
Total programme	2,030	1,556	1,609	2,127	2,606	2,503	2,631	2,560	2,570

(1) Included in these figures are the following amounts for loans and their repayments, to the Commonwealth Development Corporation from Voiced Expenditure:

Loans	30	24	30	34	37	36	41
Repayments	-1	-14	-1	-10	-10	-11	-12
Net	29	10	29	24	27	25	29

(2) Includes loans from the National Loans Fund and foreign currency borrowing by the Commonwealth Development Corporation (see note 1)

Total Current Expenditure	2,411	2,211	1,523	594	2,891	670	750	640	330
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Table 3.2.1 Analysis by broad economic category

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
Pa.	135	162	169	177	194	197	197	203	214
Other current expenditure on goods and services	163	166	174	234	269	310	321	308	311
Subsidies and current grants	1,627	1,905	1,035	1,527	1,844	1,749	1,878	1,800	1,859
Total current expenditure	1,824	1,425	1,377	1,939	2,308	2,255	2,394	2,611	2,180
Gross domestic fixed capital formation	8	17	21	22	29	32	38	44	45
Capital grants, loans, etc	97	115	211	210	271	217	184	160	155
Market and overseas borrowing by nationalised industries and some other public corporations				-44	-1		14	8	1
Total capital expenditure	105	132	232	188	299	248	237	212	201
Total programme	2,030	1,556	1,609	2,127	2,606	2,503	2,631	2,623	2,381

1. Table 3.2 covers the Overseas Development Administration expenditure on overseas aid and its administration, and the Foreign and Commonwealth Office's expenditure on overseas representation, official information services, military and various grants in aid to the BBC External Services and the British Council. Table 3.2.1 shows the programme broken down by economic category

Foreign and Commonwealth Office—ODA

Overseas Aid (the Net Aid Programme)

2. The net overseas aid programme in 1985-86 remains as shown in Cmnd 9143. In addition to the net aid programme, sums equal to the repayments of capital on past aid loans are also available to be used as new aid grants or loans by the Overseas Development Administration. Adding these sums to the net aid programme gives the gross aid programme, which is ODA's spending ceiling. It covers both provision in the Overseas Aid Vote (Class II Vote 8) and certain expenditure attributed to the aid programme, consisting mainly of the UK's share of overseas aid financed by the European Community. The gross aid programme is £1,205 million for 1985-86, comprising net public expenditure provision of £1,130 million plus capital repayments of £75 million. The

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3. The fundamental objective of the aid programme is to promote economic and social development and alleviate poverty in developing countries, particularly the poorest ones. Alongside these objectives due account is taken of political and commercial considerations. Official aid is important, especially for the development of the poorest countries, but it is only one factor: trade, direct private investment, other private financial flows, and the policies pursued by the developing countries themselves are all important to their economic progress.

4. The main recipients of overseas aid in 1983 are shown in Table 3.2.2. Spending is divided 58:42 between bilateral and multilateral aid. A fuller discussion of the aid programme's aims and achievements are provided in "British Overseas Aid 1983" and "British Aid Statistics" (see bibliography).

Table 3.2.2 UK Aid by recipient 1983 (£ million)

Multilateral Aid		
EC (including European Development Funds)		166
International Development Association		204
UN Agencies		53
Regional Development Banks		15
Other multilateral aid		19
Total multilateral aid		457
Bilateral Aid		
i. Country programmes		201
South and East Asia		
of which:		
India	121	
Sri Lanka	29	
Bangladesh	24	
Africa, Mediterranean and Middle East		193
of which:		
Sudan	31	
Tanzania	27	
Kenya	19	
Latin American, Caribbean and Pacific		62
ii. Other bilateral aid		
Aid and Trade Provision	33	
CDC: exchequer advances	39	
British Council	33	
RTA interest	2	
Research, surveys and grants to UK institutions and the voluntary sector	44	
Pensions	13	
Total bilateral aid		622
Total expenditure (gross aid programme)		1,079

Bilateral Aid

5. The main political objectives of the bilateral programme are to maintain our links with commonwealth countries, which receive about three-quarters of total bilateral aid, and other friendly nations, and to discharge our responsibilities to our remaining dependencies. Bilateral aid is provided directly to nearly 130 countries, with about 80 per cent of this going to those countries with an income per head of less than \$795 in 1983, ie those eligible for International Development Agency (IDA) funding. During 1984 it was decided to extend the policy of giving aid in grant form to include all countries in this category: over 90 per cent of all aid is made available in the form of grants.

6. Financial aid is provided to help maintain existing productive capacity and for new investments. Technical cooperation is provided primarily to promote human resource development in recipient countries. Budgetary support is given for a small number of dependencies and recently-independent countries. Bilateral aid also covers financial assistance to a range of UK bodies providing help to developing countries (eg the voluntary agencies, research and development institutions), as well as the Aid and Trade Provision, loans to the Commonwealth Development Corporation and payments to overseas pensioners. In 1983 about 75 per cent of bilateral aid was tied to UK goods and services.

7. Many developing countries suffer from a shortage of trained manpower in key institutions and sectors. Technical cooperation is used to help them overcome these weaknesses through the direct provision of British experts and consultants and through training programmes designed to develop managerial and technical skills. In 1983 we provided some 3,800 man-years of work by British specialists and supplemented staff overseas, 5,500 man-years of training for nationals of developing countries, and 161 new consultancy contracts at a cost of £30 million.

8. The achievements and effectiveness of individual country aid programmes are assessed in two important ways. Firstly, the objectives and content of bilateral aid programmes are determined through a systematic programming exercise which takes account of the circumstances of the recipient country, the priorities of the recipient government, the activities of other donors, and what the UK has to offer by way of expertise, and goods and services. It is through this process that previous achievements are assessed, and the strategic objectives and the balance of the aid effort are set for the future.

9. Consideration is given, for example, to the amount of resources which should be devoted to supporting structural adjustment programmes assisted by the IMF and the World Bank, such as those in Ghana and Zambia. Assessments are also made of which sectors should be the focus of UK aid, and within these how aid—both financial and technical co-operation—can be used to encourage improvements in management and policies, as well as to finance specific activities. An example of sector aid is the £4 million for Kenya's railway system for immediate rehabilitation of locomotives and consultancy studies on future management, training and operational requirements. Agricultural sector aid in India includes £13.1 million being allocated for a fertiliser extension programme in six states, where some 28,000 farmers should benefit from an estimated increase in food grain production of about 80,000 tonnes.

10. Secondly, the purposes for which individual aid allocations are made are carefully appraised before approval is given. Wherever appropriate, standard investment appraisal techniques are applied (including economic rate of return calculations) using UK consultants and ODA's multi-disciplinary staff. Progress is then compared against targets to assist the monitoring process. A strengthened Project Completion Report system is now being introduced. Such a report is being produced on the £113 million Victoria Dam in Sri Lanka, which

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181 Measuring effectiveness

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183 Structural adjustment and sector aid

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185 Project completion reports

ODA - further development (unfunded)

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in more detail at ... central projects and all special issues. In 1983, 20 projects of programme were the subject of such ex-post studies. Current evaluations of ODA projects include a comparison of the costs and benefits of training Tanzanians in their own country and in the UK, the rate of return on power projects in Nepal, Tonga and Indonesia, the contribution of consultants in groundwater development in Indonesia, the cost-effectiveness and possible savings to the aid programme of using a particular form of contract for a road building project in Kenya; the impact of a sugar-mill in Pakistan; and, also in Pakistan, the impact of supplementary food aid given to children. Evaluations of this type include recommendations for improvements in aid administration. The results of aid-funded research projects are periodically reviewed by expert panels. The ODA also support international studies aimed at assessing the results and effectiveness of aid programmes.

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190 Sub-Saharan Africa

12. In recent months public attention has been focussed on the acute problems facing the drought-stricken countries of Sub-Saharan Africa. The aid programme responded swiftly to this crisis with emergency assistance and will continue to do so. But the bulk of the aid programme will focus on long-term development which requires particular attention.

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Lecture

13. Although the countries of Sub-Saharan Africa will benefit from a revival of international trade, major changes are needed in policies and management if their prospects for economic growth to improve. In response to these needs ODA are providing assistance directly in support of structural adjustment programmes. ODA are moving away from individual projects towards sectoral assistance, this provides the basis for a more effective policy dialogue and support for maintaining existing investments. Greater emphasis is also being given to manpower assistance. Effectiveness is being improved by focusing on the needs of particular institutions, and by further integrating the supply of British personnel to particular countries with programmes for training their nationals in Britain.

204 Aid and Trade Provision

14. Aid and Trade Provision spending amounted to £33 million in 1983. In that year seven new governmental aid agreements totalling £27 million of ATP commitments were concluded and these were associated with export orders worth £124 million. The Aid and Trade Provision is designed to match the mixed credit practices of other donors by providing aid in combination with export credits to help finance viable investments and projects in developing countries which are of particular commercial importance to Britain. The Government's objective is to obtain international agreement on the phasing out of such activities.

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Multilateral Aid

15. The British contribution to each multilateral agency is judged on its merits and having regard to our relative economic strength. We are concerned that multilateral agencies should make effective use of the funds they are given. We believe the World Bank Group in particular has a key role to play in meeting the needs of developing countries, and will continue to ensure that it has adequate resources for this purpose.

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Lecture

16. Contributions from voted expenditure are made by the UK to the European Development Fund. In addition the cost of the UK's share of European Community aid programmes financed from the EC Budget is attributed to the overall aid programme. In 1983 the UK contributed £51 million to the Community food aid programme (total cost £232 million). We also maintain a national food aid programme supplying 110,000 tons of food grain annually. Although we recognise that food aid is vital in emergency situations we are sceptical of its long term value in meeting food deficits. In 1983 we secured adoption by the EC of improved guidelines which inter alia give more emphasis to using food aid to increase agricultural production in the recipient countries. In 1983, 45 per cent of our multilateral aid went to the World Bank Group (including the International Development Association), 12 per cent to the various United Nations development agencies and 7 per cent to regional development banks, Commonwealth bodies and others. The share channelled through the European Community's institutions stood at 36 per cent in 1983.

230 Scientific Units

17. Following the completion in 1984-85 of the transfer of responsibility for executing overseas survey and mapping projects to the Ordnance Survey, ODA now has two in-house Scientific Units—the Tropical Development and Research Institute (TDRI) and the Land Resources Development Centre (LRDC). TDRI's main objective is the management of developing country food supplies through pest control and post-harvest technology. LRDC promotes the effective use of land resources for the development of agriculture, livestock husbandry and forestry.

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Overseas Aid Administration

18. The objective is to administer the aid programme in an efficient and cost-effective way. Class II Vote 9 provides for the salaries and general administrative expenses of the Headquarters staff of the Overseas Development Administration located in London and East Kilbride, and of a small number of staff serving in regional development divisions based in Kenya, Malawi, Thailand, Barbados and Fiji and in the United Kingdom Delegation to UNESCO in Paris. Provision is also made for the cost of various services carried out for the ODA primarily by the Crown Agents, the largest of these services being the administration of those UK funded pensions payable to former overseas military, civil and public servants. The salary and other costs of the ODA's Scientific Units are excluded, since these are paid from the aid programme.

246 Manpower

19. Provision is made for 1,565 staff at 1 April 1985 falling to 1,545 at 31 March 1986. There will be further reductions in total manpower number (Headquarters and Scientific Units) to 1,500 by 31 March 1988 as shown in Table 3.2.3. As part of its response to the Financial Management Initiative, and to improve the administration of the aid programme, ODA is taking steps to set objectives and targets for all staff. Wherever practicable these will be quantifiable and date specific.

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Table 3.2.3 Overseas Development Administration manpower targets to 1988

1.4.85	1.4.86	1.4.87	1.4.88

264 Overseas pensions

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267 Purpose

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269 Reorganisation

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271 Repayments

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274 Activities

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277 Investments

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285 Borrowing

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290 Aims and objectives

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Other external relations

20. Provisions for other external relations which makes up the major part of Class II Vote 7, primarily covers pensions supplements and other pension-related payments to about 25,000 past employees of former UK dependencies and about 8,000 widows and dependants of such employees. In approximately two-thirds of these cases the UK has assumed responsibility for the payment of the basic pensions. The overseas governments formerly responsible make capital payments to the UK government to fund the portion of the pensions earned for service after Independence. These receipts and associated pensions payments do not count as public expenditure. The pre-Independence service shares of the UK-funded pensions and widows' and dependants' pensions are paid from the aid programme. The remaining basic pensions, while still attracting supplements, continue to be paid by the overseas governments concerned. The levels of supplements are set by the UK government in line with other public sector pension increases.

Crown Agents

21. The Crown Agents for Oversea Governments and Administrations were incorporated on 1 January 1980 under the Crown Agents Act 1979. They provide mainly purchasing and management services to overseas institutions and to ODA. Their activities are described in detail in the Annual Report and Accounts (see bibliography).

22. In February 1984 the Minister for Overseas Development announced that, following the loss of a substantial contract with the Government of Brunei for the management of its investments, the Crown Agents would be reorganised and eventually privatised. The reorganisation plans allow for the reduction in staff numbers from about 1200 to under 900, changes in terms of employment of staff and the sale of the principal office at 4 Millbank. The Crown Agents' Accounts for 1983 include provision for the cost of this restructuring.

23. The figures in Table 3.2 shown for 1981-82 onwards cover repayments of principal on the Crown Agents' commencing capital debt to the National Loans Fund. The 1981-82 figure excludes a £6.77 million premature repayment of the debt, which resulted from the sale of an office building, and which is included in special sales of assets.

Crown Agents Holding and Realisation Board

24. The Crown Agents Act 1979 also created the Crown Agents Holding and Realisation Board whose purpose is to dispose of various assets acquired by the old unincorporated Crown Agents. Its activities are described in the Chairman's Review and Accounts (see bibliography). The major part of the Board's task was completed with the disposal in 1982 of its assets in Australia. The Australian sale, and the disposal of other assets elsewhere, has allowed some £25 million to be paid to the Exchequer by the end of 1984. These receipts are included in special sales of assets. The figures shown for 1982-83 and 1983-84 represent parts of the proceeds of the disposals used to repay past US\$ borrowings by the Board.

Commonwealth Development Corporation

25. This provision covers the estimated commercial borrowing of the Commonwealth Development Corporation (CDC) whose new investments, which totalled £79.3 million in 1983-84, are also financed from loans from the Aid Programme (£37 million in 1983-84) and from its own internal resources. The latter arise from the difference between the terms of Aid Programme loans to CDC, which are substantially softer than equivalent commercial terms, and the terms of CDC's own lending as well as from disposals of and dividends on equity investments.

26. In line with the recommendations of the 1981 Review of the Corporation's activities, CDC seeks to place at least half of its new commitments each year in renewable natural resources projects and at least half in poorer developing countries. In 1983-84 50.8 per cent of CDC's new commitments were in renewable natural resources and 66 per cent in poorer countries.

27. The Corporation borrowed £15 million from the National Loans Fund in 1983-84 and expect to borrow £15 million in 1984-85. It has been agreed that the Corporation may borrow commercially in foreign currency up to £15 million in 1985-86 and up to £10 million in 1986-87. A full description of the Corporation's activities is provided in its annual Report and Accounts (see bibliography).

Foreign and Commonwealth Office (Other)

28. The Foreign and Commonwealth Office's strategic objectives are:

- (a) to enhance the security and prosperity of the UK and FCO Dependent Territories.
- (b) to promote and protect British interests overseas, including the interests of individual British citizens. (This involves advising the Government on the formulation of their foreign policy and implementing that foreign policy.)

29. The totals for programmes 2.1 to 2.4 inclusive for 1985-86 and 1986-87 differ from the totals in Cmnd 9143. The two principal changes are the transfer of responsibility for the Passport Office to the Home Office (£22 million per annum) and the repayment in 1986-87 of part (£19 million) of the loan made to Yugoslavia in 1983.

30. In making comparisons with previous years it should be borne in mind that there have been various additions (eg Government Hospitality Fund 1982-83, Property Repayment Services 1983-84, Central Office of Information overseas activity (1984-85)) as well as subtractions (eg India Office Library 1981-82) and major one-off items such as loans to overseas governments.

31. Approximately 40 per cent of the programme as a whole, and more than 40 per cent of the overseas representation and other external relations programmes, are affected by movements in exchange rates and overseas inflation rates. The effects of movements to the end of September 1984 have been taken into

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32. The main objective of the overseas representation programme is the provision of a Diplomatic Service deployed worldwide to conduct inter-governmental business, report on developments and provide services to the public and to exporters. The expenditure covers the running costs of the Diplomatic Service, including the cost of the Foreign and Commonwealth Office (FCO) and the resident British Diplomatic and consular representation overseas.

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317 Political and economic work

33. Diplomatic or Consular relations are maintained with 161 countries with a total of 212 posts made up as follows: 42 High Commissions in Commonwealth countries, 87 embassies in other countries (countries without a resident mission are covered by multiple accreditation from missions elsewhere); 10 missions to international organisations and conferences; and 73 subordinate posts (Deputy High-Commissions, Consulates, etc) of which 12 are staffed solely by locally engaged officers.

This budget is a result of a reduction of 2 million... embassies and 8 subordinate posts with the merger of a mission with an embassy announced in Parliament in 12 Dec 1984.

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34. Political and economic work includes lobbying for support of HMG's policies in the UN and other multilateral fora; coordinating action with our allies and partners in international organisations such as NATO, EC, OECD and GATT; conducting negotiations; and analysing the internal and external policies of foreign governments.

L with overseas governments

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Commercial work

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35. The FCO provides the staff and pays for commercial work overseas. The main effort of commercial work is on export promotion. Other activities include commercial policy and protection work and the promotion of inward and outward investment. Between 1979 and 1983 the number of British business visitors using the FCO's services increased by 17 per cent and the number of firms on outward missions by 43 per cent. There has been a shift in the work of commercial officers towards dealing with requests from UK companies and away from initiative work designed to establish new contracts and to identify export opportunities.

L of British commercial interests

L finance contracts have meant that there

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321 Consular work

36. Consular work is concerned with assisting British citizens abroad and carrying out certain statutory requirements. Immigration work involves the processing of visa or entry certificate applications from travellers wishing to visit the United Kingdom. As the number of British nationals travelling abroad has increased by nearly 300 per cent during the last 15 years, there has been a marked increase in the demand for advice and protection from consular staff. The level of passport applications has risen by about 40 per cent over the same period, while the number of visa and entry certificate applications has remained fairly constant. In 1983, overseas posts issued over 200,000 passports and around 730,000 visas and entry certificates.

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323 Information

37. The cost of providing the Diplomatic Service Staff for carrying out the Government's information effort overseas in support of both political and commercial objectives is also met from the overseas representation programme. Other costs are met from the overseas information programme (see below).

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325 Delegation

38. In 1983-84 overseas posts were given delegated authority for the direct management of fixed budgets covering about 20 per cent of their local expenditure. The indications are that in 1984-85 expenditure on the goods and services concerned will rise by about £0.5 million less than it would otherwise have done under the previous centralised control system.

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327 Overseas information

39. The main objectives of information work are to promote a wider understanding of Britain and of Government policies overseas and to encourage exports and inward investment. The overseas information programme comprises:

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(i) grants in aid to meet the cost of the BBC external broadcasting and monitoring services. The former grant includes provision for a programme designed to improve the audibility of the External Services throughout the world and also to modernise Bush House. The BBC External Services include the World Service which broadcasts 24 hours a day in English (240 hours a week including regional variants) and 484 programme hours a week in 36 vernacular languages. The total programme hours have remained broadly constant since 1979. BBC External Services programmes reach an audience of some 100 million regular listeners around the world. More details are available in the BBC Handbook (see bibliography).

(ii) a grant in aid in respect of the FCO (Diplomatic Wing) share of British Council expenditure incurred to promote wide knowledge abroad of the UK and the English language, and to foster cultural relations with other countries (the ODA share is met from the Aid Programme). The Council is at present represented in 81 countries overseas. In 1983-84 22,200 people came to Britain with British Council help, 6 million book issues were made from British Council libraries and 500,000 English class hours were taught. These figures show a slight increase over previous years.

(iii) expenditure at home and abroad on the broadcasting stations operated by the FCO on behalf of the BBC External Services and on the FCO's other operational activities, many of which are carried out by the Central Office of Information on the FCO's behalf on a repayment basis.

L these activities

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Other external relations

40. The main objective of this programme is provision of finance to support British membership of international organisations. 96 per cent of this expenditure is on various international commitments and subscriptions. These include UK subscriptions to the United Nations (including contributions to UN peacekeeping forces), The Organisation for Economic Co-operation and Development, the Council of Europe, the Western European Union, the Commonwealth Secretariat and the NATO civil budget; grants to various non-governmental organisations eg the Commonwealth Institutes; and support for conferences, scholarships etc. This programme also covers support for distressed British subjects.

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353 Military aid

41. The objective of this programme is to provide military training assistance for certain overseas countries. This mainly takes the shape of courses in Britain for service personnel from, and the loan of British personnel to, developing countries.

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437 New system

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453 Effects

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... has been reduced by about 10 per cent since 1979. There will be a continuing steady reduction in manpower. These savings will largely be achieved by the implementation of existing plans for more productive and efficient working methods including computerisation by having off some communications work, and by contracting out services where this gives good value for money.

Table 3.2.4 Foreign and Commonwealth Office manpower target to 1988

1.4.85	1.4.86	1.4.87	1.4.88
8,354	8,306	8,105	8,022

43. Apart from heads of post (11 per cent), who cover all functions, Diplomatic Service and senior locally engaged staff overseas is distributed as follows:

	Per cent
Political/economic	18
Commercial work	32
Consular/immigration	22
Information	9
Other (aid, labour, agriculture, energy etc)	8

FCO UK-based staff overseas are distributed by region as follows:

	Per cent
West Europe	23
Middle East and Africa	25
North and South America	16
East Europe, Soviet Union	8
Far East, South East Asia and remainder	20
International organisations	8

This reflects a continuation of the pattern in recent years and is not expected to change markedly.

Commonwealth War Graves Commission

Aims and objectives

44. The UK Government contributes nearly 78 per cent towards the expenditure incurred by the Commonwealth War Graves Commission (CWGC) whose purpose is to maintain the graves of, and Memorials to, the Commonwealth dead of the two World Wars. In total 1,698,820 war dead are commemorated by the CWGC at an average cost for 1984-85 of £7.90 per commemoration. The CWGC has adapted its organisation and taken advantage of technological progress to improve its efficiency. In consequence it has made and is continuing to make appropriate savings.

45. Nearly two thirds of CWGC expenditure is incurred in foreign currencies and consequently sterling expenditure depends greatly upon the rates of exchange. The UK grant to the CWGC for 1985-86 is £10,599,000 and is not subject to cash limits.

Net Payments to European Community Institutions

46. The latest estimate of the UK's net payments to European Community Institutions in 1984-85 is £690 million, compared with £891 million in 1983-84. The projection for 1985-86 is £750 million, for 1986-87 and 1987-88, the figures are £640 million and £830 million respectively. Further details are given in Table 3.2. These estimates take account of the agreement reached by heads of Government at Fontainebleau on 26 June 1984 on the future financing of the Community.

Fontainebleau Agreement

47. It was agreed at Fontainebleau that, in 1985, the UK will benefit from an abatement of its VAT payments to the Community of 1,000 MECU in respect of its excessive contribution to the 1984 Community budget, and that, thereafter, the UK's VAT payments would be abated by an amount equal to 66 per cent of the difference between its VAT share of the Community's allocated budget and its receipts from the allocated budget. (The allocated budget includes nearly all items except overseas aid and some administrative expenditure; it represents some 90 per cent of total Community spending.) These abatements will be made evenly throughout the year following that to which the calculations relate.

48. The new system for budget abatements will mean that the UK will no longer have to rely on negotiating ad hoc deals on budget refunds with other member states. Since 1980-81, the UK has received around £2.5 billion (net) of budget refunds, but the negotiations on and subsequent implementation of these refunds had become increasingly difficult. In 1984, first other member states and then the European Parliament delayed the payment of the UK's 1983 refund. Under the new arrangements agreed at Fontainebleau, the UK's budget abatement will be determined according to a given formula and made automatically on the revenue side of the Community budget each year. The estimates of the UK's net contribution shown in Table 3.2 assume these provisions will be observed. The abatements payable in 1986 onwards are expected to be substantially larger than the 1,000 MECU abatement payable in 1985, and the 1983 refunds received in 1984.

49. The broad effect of the abatement agreement reached at Fontainebleau is that the UK's net payments to the Community in future years should be around half of what they would have been had there been no agreement, no refunds or abatements, and had the 1 per cent VAT ceiling been maintained. After abatement, the UK's VAT rate is likely to remain below 1 per cent, while the rate in other member states will be in excess of 1 per cent.

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into account

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457 VAT ceiling

50. The Fontainebleau European Council also agreed on the need for greater discipline in controlling the growth of Community expenditure. In particular, it was agreed that agricultural market support expenditure should grow less rapidly than the rate of growth of the own resources base and that tight control should be maintained over the growth of other types of expenditure. Agreement has recently been reached on the detailed provisions necessary to implement these principles.

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459 Own Resources Decision

51. The Fontainebleau agreement also provided that the 1 per cent VAT ceiling should be increased to 1.4 per cent on 1 January 1986 at the latest. There was no agreement on the transitional arrangements which will be required to cover the Community's need for supplementary financing in 1985. In adopting the Draft Budget for 1985 the Council of Ministers undertook to bring in a Supplementary Budget to cover the Community's additional financing obligations in excess of the 1 per cent ceiling during 1985. ~~But there is no agreement on how this finance should be provided.~~ The projection of the UK's net payments to the Community contained in the accompanying tables assumes that a Supplementary Budget to finance additional agricultural expenditure will be adopted before the end of 1985.

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461 Net payments

52. Both the arrangements for UK abatement and the increase in the VAT ceiling will be incorporated in a new Own Resources Decision. A draft of this Decision is currently under discussion within the Community. The new abatement arrangements will last as long as the new VAT ceiling. It will not be possible to change them without the unanimous agreement of all member states.

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53. Tables 3.2.5 and 3.2.6 present the latest estimates of the UK's net budget contribution on a 'payments' and 'budget' basis, respectively. Table 3.2.5 shows the net payments actually made during UK financial years, irrespective of the Community budget to which they relate or from which they were financed. Table 3.2.6 shows the UK's net contribution in respect of a particular Community budget, regardless of when the payments and receipts actually took place. Thus our refunds for 1983 are shown against our net contribution to the 1983 budget, even though they were paid out of the 1984 budget.

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Gross receipts

54. Gross receipts from the budget by UK public sector bodies come mainly from the Agricultural Guidance and Guarantee Fund, the Social and Regional Funds, and refunds in respect of own resources collection costs. The expenditure by the Intervention Board for Agricultural Produce and other public authorities in the UK which gives rise to these receipts scores as public expenditure in the programmes concerned. Details about UK receipts are shown in Table 3.2.7

Table 3.2.7 Gross receipts from the Community budget

£ million

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
Receipts other than negotiated refunds and VAT abatements									
Agricultural Guarantee and Guidance Fund	418	601	735 ⁽¹⁾	830 ⁽¹⁾	1,233 ⁽¹⁾	1,312	1,300	1,449	1,567
Social Fund	115	105	112	174	260	226	282	284	284
Regional Development Fund	117	119	136	125	177	190	236	252	268
Refund of own resources collection costs	112	110	113	131	133	149	147	151	154
Other receipts	19	35	32	43	43	66	67	68	103
Total	781	970	1,128	1,303	1,846	1,911	1,966	2,186	2,378
Negotiated refunds and abatements									
Financial mechanism	—	211	-211 ⁽²⁾	—	—	—	—	—	—
Supplementary measures (gross)	—	434	1,170	774	239	590	—	—	—
Vat abatements	—	—	—	—	—	—	—	—	—
Total refunds and abatements	0	645	959	774	239	590	0	0	0

(1) The pattern of agricultural receipts between 1981-82 and 1983-84 partly reflects an uneven timing of payments
(2) The financial mechanism instalment received in 1980-81 was repaid in 1981-82 and converted into supplementary measures in 1981-82.

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550 Comparison with last White Paper

55 The projection of the UK's net payments to Community institutions in future years is higher than that contained in the last public expenditure White Paper (Cmd 9143), but the two projections are not directly comparable. The figures in the last White Paper did not take account of the increase in the VAT ceiling above 1 per cent, while future refunds were projected on the basis of a stylised assumption (concerning how large they were going to be, and at what point during the year they were to be paid over). It was explained that this refund assumption represented neither a forecast nor a negotiating objective.

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