

File  
Prime MinisterPM/84/85PRIME MINISTER

To see now.

The Foreign Secretary would like a word with you about it at the next convenient opportunity.

FERB

24.5.

FCO Resources

1. We have several times discussed the resources available for the conduct of foreign policy. I shall shortly be sending you (and a few colleagues) a paper on the subject. Meantime I should like to let you know my main personal impressions after nearly a year in my 'new' job.

2. I am as determined as I was in the Treasury to ensure rigorous control of expenditure. But in a world in which we have rightly been increasing our defence expenditure, we are too often reminded that prevention is better - and cheaper - than cure. Almost month by month during the last year events have shown how quickly problems can arise abroad; we need the capacity and the flexibility to cope.

3. I have been particularly struck by the impact on my programmes of exchange rate fluctuations and of high overseas inflation. Leaving aside the aid programme, some 40 per cent of FCO expenditure is overseas compared to 12 per cent for MOD; the size of the latter's budget and programmes gives them flexibility which is not available to me. I am trying to negotiate a formula with the Treasury for adjusting the baseline upwards if the pound falls - and of course downwards if it rises. As our economic policies succeed, we must allow for higher inflation rates in most countries, particularly for items like rents and local staff wages. Unless we can be sure that sterling and overseas price shortfalls will be met from central funds, we shall find ourselves facing an endless series of (inevitably publicised) arguments about

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British Council spending. Exactly the same problems arise, of course, for the Diplomatic Service.

4. I have also become very much aware of a similar conflict between my manpower resources and the demands that are made on them. The number of Britons travelling abroad has gone up by nearly 300 per cent in the last 15 years or so and by 30 per cent since 1979; and the number who expect consular, commercial and political advice from our overseas posts goes up inexorably too. Yet after allowing for such changes as the Passport Office transfer, the number of people available in the Diplomatic Wing declined by 20 per cent since 1968 and is to decline by a further 5.2 per cent by 1988. As a result, we have virtually no margin of our own to cope with successive crises like the Libyan one: you will remember our surprise the other day at the fact that only one desk officer was responsible in London for Libya, Egypt and Sudan, compared with three (albeit with one or two smaller countries added) ten years ago.

5. One particular frustration arises from the way in which we are expected to run the Diplomatic Estate overseas. It is only a year since we took this over from the PSA. Yet already there have been suggestions for a scrutiny of the way we manage the Estate. These come on top of no less than three or four initiatives - the FMI, enquiries by the C & AG and the PAC, and an FCO inspection with Treasury participation - which all have to be handled by one team of half a dozen key people, who are in danger of being scrutinised into the ground. They need to be allowed to get on with the real job of modernising the management of the whole thing. The Estate has been undermaintained and too much of it is rented rather than owned. We have several major commitments under way, such as constructing Embassy accommodation in the new Saudi capital at Riyadh and

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in Moscow. I am concerned that these could be better, and more economically, managed if we had freedom to make full use of receipts from sales of property wherever and whenever they occur rather than having to handle each project in narrow annual and geographic compartments. Unlike any private Estate - and indeed unlike the Crown Estates Commissioners - we cannot use such receipts unless we predict precisely how many will arise in a particular year. We are also inhibited by unduly inflexible space standards for the accommodation we must acquire.

6. The sort of constraints I have mentioned can be removed at little or no expense. The Government as a whole, not just the FCO, will be the beneficiary. Under present arrangements, too much time and effort is being expended in arguing over long periods about issues which could be better managed. In particular, I should like to get rapid agreement now on:

- (a) the sterling/overseas inflation problem I have mentioned;
- (b) an arrangement which allows for asset recycling and end-year flexibility in the management of the overseas estate.

I believe that these would contribute to efficiency by making coherent planning possible. They would certainly be a great encouragement to those engaged in the task of trying to ensure value for money.

7. Perhaps we could have a word about all this when you have had a chance to digest the other minute (with supporting paper about overseas expenditure) which I am also sending you today.

GEOFFREY HOWE

Foreign &amp; Commonwealth Office

24 May 1984

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MAY 1984

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