

PRIME MINISTER

EXCHANGE RATE FLUCTUATION AND OVERSEAS INFLATION

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Geoffrey Howe has minuted you about the impact of FCO

- A. expenditure of exchange rate fluctuations and overseas inflation.

There are two problems:

(a) How to cope with the effect of such fluctuations in the course of a year. The Foreign Office expect a £16 million shortfall this year - about 3 per cent of their vote.

- B. The Chief Secretary agrees to deal with this 'in a practical way' but will give no guarantee that the Foreign Office will get the whole sum. Geoffrey Howe wants an assurance that what he cannot find from savings will be available from the central Reserve.

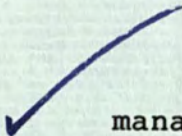
(b) How to cope with carrying forward shortfalls (or gains) between financial years.

Geoffrey Howe wants to make a base line adjustment. This could be either upwards or downwards. The Chief Secretary considers that, if it is upwards, it should be treated just like any other bid for additional expenditure.

- C. You discussed this problem informally with Geoffrey Howe on 20 June and sympathised with his point of view.

Agree either:

- (a) to hold a meeting with Geoffrey Howe and the Chief Secretary to resolve this matter. If so the meeting could also deal with Geoffrey Howe's wish to use receipts from property disposals to improve



management of the diplomatic estate.

or

(b) to minute your views i.e. that you think
Geoffrey Howe has a case, subject to the system
operating symmetrically, that is if the FCO gain
from fluctuations, they hand the money back.

(a)

CDP

12 July, 1984

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