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Copy

Subject on Civil Service

Manpower Freeze: Pt 4.

✓ MAF

2.

MODBA to 888

Foreign and Commonwealth Office
 London SW1

13 March 1980

For Geoffrey,

Will request if required

BRITISH COUNCIL: PAY AND CASH LIMITS

In his letter of 7 March Paul Channon suggested that Peter Carrington should pursue with you the question of exempting the British Council from the pay cash limit squeeze which Cabinet decided on 6 March should be 2 1/2 % of manpower costs for 1980/81.

The case for exempting the Council was set out in Peter Carrington's minute of 26 February to Paul Channon which was copied to you. Soundings since that date have served to emphasise that serious political consequences could follow the imposition of further cuts. The Board is finding it difficult enough to accept reductions on the scale necessitated by our decision in the light of the Interdepartmental Review to reduce the Council's budget by £3.9 million on top of the cut already applied for 1980/81. It is becoming increasingly evident that an additional reduction in manpower through a cash limit squeeze, as well as having major implications for the future of the Council, would probably lead to the resignation of all or part of the Board. This would mean a major row in Parliament. My judgement is endorsed by Michael Jopling in his letter of 4 March, which was also copied to you.

/Cabinet

The Rt Hon Sir Geoffrey Howe QC MP
 Chancellor of the Exchequer
 HM Treasury
 Parliament Street

SECRET

Cabinet also decided that the 2 1/2 % cash limits squeeze should not be applied to certain small Departments where its impact would be particularly hard. I am convinced the Council should be regarded as being in this category and that we should exempt it from the squeeze. I hope you can agree.

I am sending a copy of this letter to the Prime Minister (with copies of Peter Carrington's minute of 26 February to Paul Channon and of Michael Jopling's letter of 4 March to Peter Carrington) in view of the Parliamentary repercussions inherent in a decision not to exempt the Council. A copy also goes to Michael Jopling and to Paul Channon.

yes ✓
lan

SECRET



FCS/80/44

MINISTER OF STATE, CIVIL SERVICE DEPARTMENT

British Council: Pay and Cash Limits

Finance Dept

PA

27/2

Also on

8/12/80/g

PS
PS/LES
PS/Mr. How
PS/Mr. Bl
PS/POS
Mr. Figg
Mr. Hinson
CRD
PPD

1. I have been examining the effect on the British Council of a pay cash limit squeeze of 5% mentioned in your letter of 24 January to Willie Whitelaw and other Departmental Ministers. It is evident that coming on top of the cuts already imposed such a course would have very serious consequences.

2. Cabinet decided last year that Council expenditure should take a cut of £5.2 million in 1980/81 (£3 million from FCO; £2.2 million from ODA). The level of expenditure from 1981/82 to 1983/84 was subsequently considered by means of an Interdepartmental Review which identified three options. You will recall discussing these with Geoffrey Howe and other colleagues on 29 January when we decided that the Council's budget should be reduced by a further £3.9 million (option 'B') which would be achieved by three successive annual reductions. You will also recall that Neil Marten and I entered a further caveat that pressure on the Aid Programme was likely to cause additional reductions in the ODA funding element, possibly by as much as £2 million a year.

3. The real impact of all this on the Council's expenditure and in consequence on the scale of its activities is set out in Parts I and II of the attached table. The cuts already agreed (Part I) produce a reduction of 11.2% in 1980/81 rising to 19.5% in 1983/84. The extent of the further reduction in ODA fundings (Part II) is still being worked out by my officials but the probable outcome is that by 1983/84 we shall have imposed a total percentage cut of almost 24%.

4. The Council is planning to meet the 1980/81 cut by reducing its staff establishment by about 360 UK-based posts and 175 locally-engaged staff abroad. Part III of the table shows what would happen if in addition they were required to bear a cash limits squeeze of 5% in that year. Such a squeeze would amount to £.8 million or another 98 posts. But the rub is that because the offsetting factors of normal wastage and halting recruitment would have been exhausted in meeting the known 1980/81 cuts, the further 98 staff

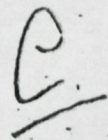
/savings



savings could be achieved only by enforced redundancies which the Council estimate would cost them an additional £1.1 million. The Council would thus be hit twice over. Effectively it would have to face a total reduction of £7.1 million (15.23%) in 1980/81. This course, compounded by option 'B' in the subsequent years and the probable additional reduction in ODA fundings, would damage the Council irreversibly.

5. At the meeting on 29 January I argued against any further cuts in the Council's spending levels. But in view of the inescapable need to reduce public expenditure, I went along with the choice of option 'B'. This represented, in my view, the absolute maximum cut the Council could bear and still remain an effective instrument of our foreign policy. The possibility that a cash limit squeeze might also be imposed on the Council was not discussed. Had it been, I would have resisted it strongly. However, having learned that Treasury have not yet allocated any provision for next year's pay award (presumably because the Council is linked to the Civil Service for pay matters) I think it right to establish that the Council will be exempted from a further reduction in manpower through a cash limit squeeze. Unless this is done I believe we shall be faced with resignations from the Board, who have already expressed grave concern about the likely effect of the recent decisions taken; and with an outcry from the Council's supporters in Parliament and elsewhere who are by no means reconciled with what has been done so far. Our judgement is that there could be a major Parliamentary row from which the Government might not emerge victorious. Your letter acknowledged that special treatment might be required for small Departments on which further cuts would bear especially hard. I trust therefore that you and Geoffrey Howe, to whom I am copying this minute, will agree that the Council should be so exempted.

6. I am also sending a copy of this minute to Michael Jopling in view of the Parliamentary interest.


(CARRINGTON)

Foreign and Commonwealth Office

26 February 1980

ALL FIGURES AT 1979 SURVEY PRICES

£ MILLION

PESC POSITION (PRE CUTS)

| | <u>1980-81</u> | <u>1981-82</u> | <u>1982-83</u> | <u>1983-84</u> |
|------------------------------------|----------------|----------------|----------------|----------------|
| F.C.O. | 26.2 | 26.2 | 26.2 | 26.2 |
| O.D.A. contribution to core budget | 14.5 | 14.5 | 14.5 | 14.5 |
| O.D.A. Aid Admin. | 5.9 | 5.9 | 5.9 | 5.9 |
| | <hr/> 46.6 | <hr/> 46.6 | <hr/> 46.6 | <hr/> 46.6 |
| | 'A' | 'B' | 'C' | 'D' |

FIRM CUTS

| | | | | |
|--------|-----------|----------------|----------------|------------|
| F.C.O. | 3.0 | (1.0) (3.0) | (1.6) (3.0) | 2.2 3.0 |
| O.D.A | 2.2 | (0.6) (2.2) | (1.3) (2.2) | 1.7 2.2 |
| | <hr/> 5.2 | <hr/> 6.8 | <hr/> 8.1 | <hr/> 9.1 |
| | 'A' | 'B' | 'C' | 'D' |

- 'A' : 11.2% Reduction
 'B' : 14.6% Reduction
 'C' : 17.4% Reduction
 'D' : 19.5% Reduction

II. If the probable further reduction in "Aid Administration" began to be applied in 1981/82 and rose progressively to a maximum of £2 million in 1983/84, the total percentage cut for that year would amount to 23.8%

III. If a 5% cash limit squeeze were to be applied in 1980/81 the effect would be to reduce the provision for manpower related costs by some £.8 million. But in order to divest themselves of the necessary 98 staff in the year, the Council estimate they would have to pay under the terms of the Redundancy Agreement an additional £1.1 million by way of redundancy pay and notice. The total effect would be a further reduction in money available for activities in 1980/81 amounting to some £1.9 million; making the effective cut for that year:-

£5.2 m
 plus 1.9 m

 £7.1 m

or a percentage cut of 15.23% in 1980/81

X/A100/106

REGISTERED IN REGISTRY No. 21

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|--------------|--------------|
| DESK OFFICER | REGISTRY |
| PA | ACTION TAKEN |
| | |

(23)

FROM: THE RT HON MICHAEL JOPLING MP



Government Chief Whip
12 Downing Street, London SW1

4 March 1980

CRD
CC: PS
PS/LPS
PS/Mr Howard
PS/Mr Blaker
PS/PUS
Chief Clerk
Mr Fyfe
Lord Gordon-Lindsay
Mr Straker
~~Mr [unclear]~~

6/11/1
1977

(17)

Thank you for sending me a copy of your minute of 26 February to Paul Channon about the British Council and Pay and Cash Limits.

Peter Morrison has already spoken to Peter Blaker about this, and warned him that there would be a major row in the House if further cuts were pushed through, and the British Council were to resign as a result.

I agree entirely with Peter Morrison especially in view of Early Day Motion No 188 which has attracted 92 signatories, of which 17 are Government supporters. In my view the key factor will be whether the Members of the Board resign or not.

I am copying this to Paul Channon and Geoffrey Howe.

Michael

Rt Hon Lord Carrington PC KCMG MC
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
SW1A 2AL

Copy sent to Mr. Matthews, Tsg.
10/3