



FCS/O3/203

CHIEF SECRETARY TO THE TREASURY

Iraq Reserve Claim: Reconstructing the Media Network

1. Thank you for your letter of 16 October. I am sorry to say that I do not think that it matches the resource reality with the importance of the work that we need to do to ensure that we do not lose the peace in Iraq.
2. You repeat the mantra that we must look for existing resources within the FCO, the GCPP and other Departments. I have asked officials to explore urgently the scope for contributions from other Government Departments. We have already looked internally. But it is not clear to me whether the Treasury has a view as to how much the FCO can reprioritise without damaging the delivery of other Government priorities overseas in a way which is self-defeating. In the last two years, the FCO has entered three claims on the Reserve in respect of the events in Afghanistan and Iraq - none of which were predictable within the Spending Review cycle. The total FCO claims for these reserves were £105 million. The Treasury did not dispute the unforeseeable and emergency nature of these costs and yet the Reserve met only £54.5 million of them - leaving the FCO to absorb £51.5 million as well as, in the case of Afghanistan, recurring costs. We have also absorbed significant internal costs for which we did not claim on the Reserve. This takes place against the background of an FCO budget for operating expenses which decreases in real terms across the SR 02 period.
3. Programme budgets have also been squeezed. In addition to this, the Global Conflict Prevention Pool has already agreed to produce £17.5 million to support the reconstruction of Iraq. The Global Opportunities Fund, although

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announced as £20/40/60 million in the Spending Review in reality gives us much less - 10% of it is allocated to the management of the fund which is needed to ensure that it is properly used and delivers the outcomes the Government wants from it. Further sums have to be used to plug the gap in the FCO's international subscriptions budget because the Treasury refused to meet these unavoidable costs in the SR02 settlement and required the FCO to find half of the shortfall from the GOF; you will recall that the Treasury required the GOF to produce £0/3/3 million to support the Afghan drugs strategy, which was similarly unfunded in SR 02; and since our SR 02 settlement required the FCO to establish a Departmental Reserve with no new resources for the purpose, £2/3/4 million of the GOF is committed for that purpose. The core FCO programme budget for public diplomacy - created through exactly the internal reprioritisation HMT is seeking - is very small and is fully committed for this year.

4. In addition to the above the FCO is reprioritising about 5% of its budget over the current Spending Review period simply in order to make ends meet in paying salaries and other essential operational costs. My officials have send the Treasury a paper on budget pressures in 2005/06 which explains this.

5. Yet when we are asked by the Prime Minister's Office to arrange a programme which will meet an urgent and important requirement in Iraq, we are told, yet again, that we must reprioritise. This is not realistic: we are already at full stretch

6. In my ministerial career - as you know - I have consistently rejected knee-jerk claims from officials that they need more resources when in fact they have done insufficient to reprioritise. But the FCO budget is now substantially overstretched, as we will show to you in the run up to the Spending Review. The Government needs to decide what priority it places on delivery of the

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Government's overseas agenda - including the direct costs to the Exchequer if we fail.

7. I suggest that the next step should be for us to instruct officials to re-engage. We are willing to have a sensible debate about whether we have exhausted all avenues for identifying resources to help support the broadcasting requirement in southern Iraq although I do not anticipate that we will find major resources internally.

8. One of the problems we face is that the Treasury insisted on maintaining in the last Spending Review the ring-fence around British Council resources which would otherwise have allowed us to take a more rounded view of the funds available for public diplomacy overseas - which are very small in the FCO but very substantial in the British Council. There are none of the constitutional arguments for ring-fencing the British Council as there are for the BBC World Service.

9. I am copying this minute to the Prime Minister and to Hilary Benn.

(JACK STRAW)

(Approved by the Foreign Secretary
and signed in his absence overseas by
the Private Secretary)

Foreign and Commonwealth Office

20 October 2003

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