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Prime Minister

You may wish to await
a comment from the
Chancellor before intervening.

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PM/82/50

PRIME MINISTER

Rehabilitation of the Falkland Islands

1. As you will know, Mr Hunt has been instructed to send an early assessment of what urgent action is required, both immediately and in the longer term. Once his assessment has been studied, and priorities established, we must be able to give the go-ahead quickly.
2. The initial rehabilitation work is being undertaken by the Armed Forces. There will clearly be overlap between military and civil programmes but responsibility for the bulk of the purely civil rehabilitation will fall on the budgets for which I am responsible. Initial estimates in OD(SA)(FE)(82)11 put the potential costs at between £10 and £40 million for essential, short-term work, and £80 to £100 million in the longer term. But these are guesses.
3. The FCO cannot cope with extra and unforeseeable financial burdens of any magnitude. There is simply no room in the programmes of the Diplomatic Wing. Nor can the Aid Programme, which would have to bear the lion's share of FCO expenditure, take this sort of strain within its existing provisions. The details are complex, but in brief the £30 million ODA contingency reserve for 1982/83 is already fully allocated: we have also had to use up the savings arising from the postponement of the Indian Steel Mill and smaller programmes. Among the demands we face are the concessions to Mrs Gandhi earlier this year. In 1983/84 and later years, as the Chancellor will know from recent correspondence on the broad Aid Strategy, pressure on the Aid vote will be even stronger.

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4. If we are to avoid delaying urgently needed projects in the Falklands, money must be provided from the outset. This must mean new money for a major new commitment. Just as the principle has been established that the MOD will not be expected to meet from its regular budget the cost of the Falklands campaign and its aftermath, so it is clearly not possible for the regular budgets of the FCO wings to meet new and unexpected expenditure on this scale. I therefore propose that new money be allocated. I hope that you and other OD(FAF) colleagues can agree.
5. There may be advantage in setting up a special development fund (ie a block of money set aside for specific purposes, outside normal departmental votes) to finance proposals in the longer term such as those which Lord Shackleton may recommend. But the purpose of this minute is to concentrate on the much more pressing issue of where the money for immediate rehabilitation is to be found.
6. I am copying this to colleagues on OD(FAF).

(FRANCIS PYM)

Foreign and Commonwealth Office
25 June 1982

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