

cc Mr ~~Johnson~~

MAJ.



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~930 7000~~ 218 2111/3

MO 22/5

23rd October 1980

Dear Mike,

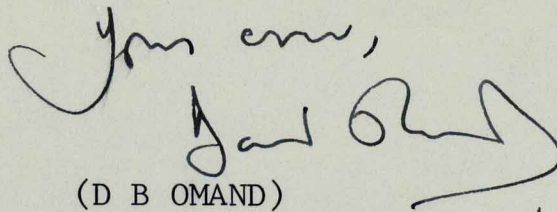
LEAK OF DOCUMENTS ON PUBLIC EXPENDITURE

We spoke this evening about the tape issued by the / Press Association. A copy is attached. As I explained it is clear that the quotations are from genuine documents.

As I explained to you my Secretary of State felt that in the circumstances we had to admit that the quotations were genuine but that we should emphasize that no decisions had been taken. My Secretary of / State issued the attached statement to the Press before he left for Belgium this evening.

Naturally, we are trying to establish which documents are in the hands of the Press Association and how they got there.

I am copying this letter to Paul Lever (FCO), Terry Mathews (Chief Secretary's Office), Richard Prescott (Paymaster General's Office) and David Wright (Cabinet Office).

Yours ever,

(D B OMAND)

M A Pattison Esq

CONCERN OVER DEFENCE CUTS

DEFENCE SECRETARY FRANCIS PYM HAS BEEN WARNED IN A CONFIDENTIAL MEMO FROM HIS TOP CIVIL SERVANT THAT DEFENCE CHIEFS ARE SERIOUSLY CONCERNED OVER GOVERNMENT CUTS IN MILITARY SPENDING.

AT THE SAME TIME, TREASURY CHIEF SECRETARY JOHN BIFFEN HAS WRITTEN TO MR PYM DEMANDING CUTS OF £400 MILLION A YEAR UP TO 1984.

IT IS UNDERSTOOD THAT THE TREASURY NOW WANTS TO INCREASE THIS FIGURE TO £500 MILLION SO THE GOVERNMENT CAN BOOST ASSISTANCE TO THE NATIONALISED INDUSTRIES WITHOUT RAISING TAXATION.

AS A RESULT OF THE CUTS, THE GOVERNMENT WILL FAIL TO HONOUR, BOTH THIS YEAR AND NEXT, ITS PLEDGE TO INCREASE DEFENCE SPENDING BY THREE PER CENT A YEAR IN LINE WITH AN AGREED NATO TARGET.

THE PRESS ASSOCIATION HAS IN ITS POSSESSION DOCUMENTS SPELLING OUT THE FEARS OF THE DEFENCE CHIEFS AND THE DEMAND FOR CUTS BY MR BIFFEN, WHICH WILL MEAN THAT BRITAIN'S MILITARY SPENDING WILL INCREASE BY ONLY 1.5 PER CENT IN EACH OF THE NEXT TWO YEARS, WRITES OUR POLITICAL STAFF.

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FOR MOD

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1 DEFENCE

BY ANDY WEBB, PA POLITICAL STAFF

DEFENCE SECRETARY, MR FRANCIS PYM, HAS BEEN WARNED IN A CONFIDENTIAL MEMO FROM HIS TOP CIVIL SERVANT THAT DEFENCE CHIEFS ARE SERIOUSLY CONCERNED OVER GOVERNMENT CUTBACKS IN MILITARY SPENDING.

AT THE SAME TIME, TREASURY CHIEF SECRETARY, MR JOHN BIFFEN, HAS WRITTEN TO MR PYM DEMANDING CUTS OF £400 MILLION A YEAR UP TO 1984.

IT IS UNDERSTOOD THAT THE TREASURY NOW WANT TO INCREASE THIS FIGURE TO £500 MILLION SO THE GOVERNMENT CAN BOOST ASSISTANCE TO THE NATIONALISED INDUSTRIES WITHOUT RAISING TAXATION.

AS A RESULT OF THE CUTS, THE GOVERNMENT WILL FAIL TO HONOUR, BOTH THIS YEAR AND NEXT, ITS PLEDGE TO INCREASE DEFENCE SPENDING BY 3 PERCENT A YEAR IN LINE WITH AN AGREED NATO TARGET.

BUT IT IS CLEAR THAT DEFENCE IS BEING REQUIRED TO BUCKLE UNDER LIKE OTHER SPENDING DEPARTMENTS AND THE DISCIPLINE OF CASH LIMITS AND FURTHER SPENDING CUTS TAKES PRECEDENCE OVER THE DEFENCE COMMITMENT.

MF 1710 23/10 PC NNN 1 DEFENCE

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DEFENCE

THE PRESS ASSOCIATION HAS IN ITS POSSESSION DOCUMENTS SPELLING OUT THE FEARS OF THE DEFENCE CHIEFS AND THE DEMAND FOR CUTS BY MR BIFFEN, WHICH WILL MEAN THAT BRITAIN'S MILITARY SPENDING WILL INCREASE BY ONLY 1 1/2 PERCENT IN THE EACH OF THE NEXT TWO YEARS. THESE DEVELOPMENTS ARE BOUND TO ALARM MANY TORY MPS.

MR PYM IE

XXXXIS LIKELY TO FACE TOUGH QUESTIONING AT THE CONSERVATIVE BACKBENCH DEFENCE COMMITTEE ON TUESDAY AND AT COMMONS QUESTION TIME THE SAME DAY.

THE MINISTRY OF DEFENCE AND THE TREASURY CLASHED EARLIER THIS YEAR OVER CONTROL OF THE DEFENCE BUDGET, WHICH WAS £600 MILLION OVERSPENT.

IN AUGUST A THREE-MONTH FREEZE WAS IMPOSED ON NEW DEFENCE CONTRACTS AND THE MINISTRY'S CASH LIMIT WAS INCREASED BY £203 MILLION.

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PA SNAPFULL

3 DEFENCE

IN A MINUTE DATED OCTOBER 2 TO MR PYM ON THIS YEAR'S DEFENCE EXPENDITURE MOD PERMANENT UNDER SECRETARY, SIR FRANK COOPER, PREDICTED THAT DESPITE THE NEW CASH LIMIT, THE DEFENCE BUDGET WOULD STILL BE OVERSPENT BY £135 MILLION.

HE WAS MEETING THE CHIEFS OF THE DEFENCE STAFF TODAY TO DISCUSS WHAT COULD BE DONE.

SIR FRANK BLAMED THE HIGH RATE OF BILLING TO THE MINISTRY BY PRIVATE INDUSTRY, HIGH OVERHEADS AND A BIGGER RATE OF INFLATION THAN FORECAST.

MF 1719 23/10 PC

PA SNAPFULL

4 DEFENCE

SIR FRANK TOLD MR PYM THAT THE CHIEFS OF STAFF WERE "NATURALLY SERIOUSLY CONCERNED" ABOUT THE EFFECT ON THEIR OPERATIONAL CAPABILITIES AND ALSO STRESSED THAT THE INTERNATIONAL SITUATION HAD DETERIORATED DANGEROUSLY IN THE LAST FEW WEEKS.

THERE WAS EVIDENCE OF NATO AND INTERNATIONAL AWARENESS OF BRITAIN'S REDUCTIONS IN ACTIVITY LEVELS.

SIR FRANK EXPRESSED HIS OWN CONCERN ABOUT NEXT YEAR'S BUDGET WHEN, HE SAID, INDUSTRIAL AND ECONOMIC FACTORS WOULD CONTINUE TO EXERT "ENORMOUS PRESSURES" ON DEFENCE.

MF 1721 23/10 PC

PA SNAPFULL

5 DEFENCE

MR BIFFEN, IN HIS LETTER, MARKED "SECRET" AND DATED SEPTEMBER 19, SAID THERE WAS A REAL POSSIBILITY THAT PUBLIC SPENDING CUTS WOULD HAVE TO BE "SUBSTANTIALLY BEYOND" THOSE HE HAD PROPOSED IN JULY.

HE HAD ORIGINALLY ASKED FOR SAVINGS OF £140 MILLION A YEAR FROM THE DEFENCE MINISTRY FROM 1981/82 TO 1983/84.

BUT HE SAID: "IN THE SITUATION WE NOW FACE WE MUST EXPLORE THE POSSIBILITY OF A SUBSTANTIALLY GREATER CONTRIBUTION FROM DEFENCE, SAY, OF THE ORDER OF £400 MILLION A YEAR.

MF 1723 23/10 PC

PA SNAPFULL

6 DEFENCE

"I RECOGNISE THAT SUCH A CUT WOULD CREATE SUBSTANTIAL PROGRAMME DIFFICULTIES FOR YOU, BUT I HAVE TO PUT NO LESS UNWELCOME PROPOSALS TO OTHER COLLEAGUES WITH MAJOR EXPENDITURE PROGRAMMES AND MUST LOOK TO YOU TO ACCEPT A FAIR SHARE."

HE ADDED "CLEARLY THIS WOULD MEAN THAT WE WOULD NOT MEET THE 3 PERCENT TARGET IN 1981/82."

"A STRONG DEFENCE REQUIRES A SOUND ECONOMY," MR BIFFEN DECLARED.

"THE CUTS WHICH WE NOW HAVE TO EXAMINE IN SOCIAL - AND OTHER PREVIOUSLY 'PROTECTED' - PROGRAMMES, ARE LIKELY TO CREATE EVEN GREATER POLITICAL AND PRESENTATIONAL PROBLEMS."

MF 1725 23/10 PC

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7 DEFENCE

THE MOD'S OWN CALCULATIONS SHOW THAT MR BIFFEN'S PROPOSALS WOULD MEAN A 1 1/2 PERCENT INCREASE IN REAL DEFENCE SPENDING THIS YEAR AND RETURNING TO THE 3 PERCENT NATO GROWTH TARGET AFTER THAT.

THE CONSERVATIVE ELECTION MANIFESTO DECLARED THAT "A SIGNIFICANT INCREASE WILL BE NECESSARY" IN DEFENCE EXPENDITURE.

ONLY IN AUGUST, MR PYM WROTE TO PARTY CHAIRMAN LORD THORNEYCROFT STATING THE GOVERNMENT'S "UNSHAKEABLE COMMITMENT TO DEFENCE" AND APPEARING TO CONFIRM THAT MINISTERS WERE STICKING TO THE NATO AGREEMENT.

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DEFENCE CORRESPONDENT ROBERT HUTCHINSON WRITES:

BEFORE THE SPENDING CLAMPDOWN ANNOUNCED IN AUGUST THE DEFENCE
MINISTRY HAD ALREADY LAUNCHED INTERNAL SAVINGS VALUED AT AROUND
£250 MILLION.

THESE INCLUDED POSTPONEMENT OF ORDERS FOR SPARES FOR THE ARMY'S
BLOWPIPE ANTI-AIRCRAFT MISSILE: ITS BIGGER BROTHER, THE RAPIER:
DEFERMENT OF HARBOUR SERVICE BOATS FOR THE NAVY AND JETSTREAM
AIRCRAFT FOR THE RAF.

THEN CAME THE MORATORIUM - A TOTAL BAN ON NEW DEFENCE CONTRACTS
EXCEPT THOSE INVOLVING DIRE OPERATIONAL NEED. THIS WAS EXPECTED
TO SAVE MORE THAN £100 MILLION.

BUT FURTHER MEASURES WERE THOUGHT NECESSARY - AND THE MINISTRY
CUT BACK FUEL ALLOCATIONS, FREIGHT MOVEMENTS AND SUBSISTENCE
ALLOWANCES FOR PERSONNEL, AGAIN WORTH £100 MILLION.

THE NAVY BORE THE BRUNT OF THE FUEL REDUCTIONS - UP TO 30
PER CENT WAS CUT - AND TWO SHIPS WERE PULLED OUT OF A NATO
EXERCISE IN THE MEDITERRANEAN.

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The quotations given appear to be taken from genuine documents. But no decisions have been taken. They can be taken only after collective consideration by Ministers, and discussions about future levels of public, including defence, expenditure are only just beginning as part of the annual Public Expenditure survey cycle. The Government is in no doubt that we must year by year increase our defence capability until we reach and maintain it at a level which we believe is essential for our national safety.