

1 1/2% to be no less  
 21.8% - with limit  
 for last year



MO 8/2/12

PRIME MINISTERDEFENCE CASH LIMITS 1980/81

The Chancellor will mention this briefly under Parliamentary Affairs - these because of the need to announce the increase in the cash limit by a written answer before the House sits.

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The Chancellor of the Exchequer will, I understand, be reporting to Cabinet tomorrow that he has agreed that I should be granted a net increase above my cash limits in the current year of £150M. I thought that I should set out, for the information of the Cabinet, the implications of this.

2. When cash limits for 1980/81 were established it was agreed that their application to Defence should be reviewed "in the light of developments in the international situation and NATO's response to them". This agreement enabled us to maintain to NATO and domestically that we were carrying out our declared policy (Command 7841) of increasing Defence expenditure in line with the agreed NATO aim of annual increases of in the region of 3% in real terms. The Defence Programme was constructed accordingly after discussion in the Defence and Overseas Policy Committee (OD). The increase of £150M will mean that, depending on the movement in prices during the remainder of the year, real defence will rise by rather less than 1½% in real terms, and not by the 3½% planned. I have accepted that this should be the case in the shorter term in the light of the very grave financial situation facing the country and the priority we must accord to getting the economy right. I would like, however, to explain the consequences of this for the Defence Programme in the current year and explain why I consider that this reduction must be limited to this year.

3. As regards 1980/81 there can be no doubt that the operational efficiency of the Forces will be impaired, there will be damage to Service morale and there will be an adverse effect on defence Industries. Unless very carefully handled there could also be difficulty in the party. I cannot yet explain in detail the measures I will have to take to contain the budget within the new limit but in broad terms they are likely to be as at Annex.

SECRET



4. If we were to continue beyond 1980/81 to fail to reach a 3% annual increase in real terms the consequences would be very serious indeed. There would be grave damage to the Defence Programme, for which my plans are now based, with OD's approval, on the assumption of a 3% increase; to our credibility in Parliament and in the country given the very positive line we have taken on defence since we came to power; and to the Alliance to whom we have already given a much needed lead and whose efficiency of working we were hoping to begin to improve. It is in the interest of getting things right in the longer term that I have agreed, albeit with the greatest reluctance, that we cannot reach 3% in the shorter term.

5. I am sending copies of this minute to other members of the Cabinet, the Minister of Transport and the Chief Whip; and to Sir Robert Armstrong. In view of its sensitivity I would ask that they limit strictly any further circulation.

*Handwritten signature*

Ministry of Defence

6th August 1980



MEASURES NEEDED TO FIND A FURTHER £250M SAVING IN THE  
DEFENCE BUDGET IN 1980/81

Action already taken

Cuts of £250M in the defence programme have already been made in order to compensate for the faster than expected rate of progress on the defence equipment programme this year, in itself a result of the economic recession. A moratorium is being placed on new defence contracts (save for a few essential exceptions) in order to protect the programme against further unplanned growth this year. The moratorium, initially for three months, will last until further notice. If enforced for the whole year it might produce savings of at most £150M.

2. In addition nearly all works services have been stopped; all civilian recruitment halted except for scarce skills and young apprentices; schemes eg Assisted House Purchase for improving conditions of service have been deferred; and a number of Service exercises cancelled.

Action now required

3. In order to achieve the reductions now necessary to stay within the revised cash limit cuts will be made in a number of areas including stopping or cutting back hard on:

- a. training, and remaining exercises - up to perhaps £10M;
- b. personnel movements and freight - up to £30M;
- c. recruitment to the three Services - up to perhaps £30M.

4. Beyond this savings must come from among the following:

- a. fuel purchases for the RN - £40M could be saved by restricting the Fleet to essential trials and training, by withdrawing from NATO and other exercises, withdrawing the Belize guardship and cancelling planned overseas deployments. Further cuts would put fishery protection and Northern Ireland patrols at risk;

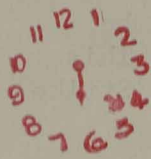
b. fuel purchases for the RAF. £50M could be saved by cutting flying by about one third. This would hit hard the operational capability of Strike Command and the Air Transport Force;

c. heating of domestic, administrative and technical accommodation - perhaps £50M;

d. stopping all uncommitted expenditure in the R&D area, drastically reducing purchases of accommodation stores and deferring expenditure in the nuclear field - up to £50M.

5. It would not make sense to go to the limit under any of these options: we shall have to find the most sensible combination of the measures but deep and conspicuous cuts in Service activity will be unavoidable.

- 6 AUG 1980



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to make the Air Force...

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technical accommodation - perhaps...

3. The effect of domestic...  
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