



*Prime Minister* 2

*See page 2  
in particular.*

Treasury Chambers, Parliament Street, SW1P 3AG

*B.*

Rt Hon Francis Pym MC MP  
Secretary of State  
Ministry of Defence  
Main Building  
Whitehall  
London SW1A 2HB

*[Handwritten signature]*

18 June 1980

*Dear Francis,*

DEFENCE CASH LIMITS 1979-80 AND 1980-81

The White Paper on the cash limits outturn for 1979-80 which we shall publish next month will show an overspend for the MOD 1979-80 global cash limit of £60.2 million. This overspend, although neither unexpected - the Spring Supplementary Estimates took total provision on the relevant Votes £63.8 million above the previously announced cash limits - nor unprecedented - the Defence 1978-79 cash limit was similarly overspent - is regrettable. It is clear that your cash limits for the current year will have to be correspondingly reduced. Parliament and public will expect this.

The change could conveniently be announced as part of a package containing three other adjustments to your cash limits which have, I understand, been agreed.

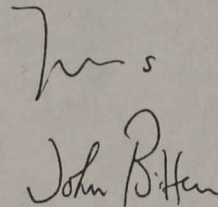
- (a) First, your share of the Civil Service Department's central vote for Civil Service pay, which is now to be distributed to Departments, amounts to £163.8 million.
- (b) Second, the Prime Minister told the House on 29 April that the Government accepted in full the recommendations of the Armed Forces Pay Review Body, that the consequences for the cash limit were being considered, and that an announcement would be made in due course. I understand that the implementation of the Award will cost £50 million more than the provision for Forces' pay in the Estimates.
- (c) Third, a small reduction in the cash limits need to be made to give effect to the agreed transfer of £2 million to the Foreign and Commonwealth Office for increased military training assistance.

The net result is that we need to announce that your global cash limit figure has been revised to £10,276 million. The elements in the calculation will have to be fully set out. If you agree our officials can discuss the terms of an announcement which should, in accordance with the normal policy on cash limit changes, be made as soon as possible, conceivably linked to the presentation on 24 June of the Revised Estimate for the Civil Service pay increase.

Meanwhile your Department's spending in the current year is a matter of great concern. Expenditure in April and May was £400 million more than expected, a third as much again as the usual proportionate spend in those months. If this were to continue, the prospect for 1980-81 would be of another overspend. This would be a third consecutive breach of the rules, and the second under this Government, and this time on a scale which would endanger our financial strategy.

As a Government we are firmly committed to the cash limit system. We are due to review your cash limits at some stage in the course of the year, but the results of that review should not be pre-empted by your proceeding on a course which would make it impossible to observe the present limits.

I am sending copies of this letter to the Prime Minister, members of OD, and the Secretary to the Cabinet.



JOHN BIFFEN



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