

Prime Minister.

SECRET

More bad news from Defence, I am afraid, as part over-commitment on the equipment programme comes home to roost ~~still~~ more. The Nott is proposing further cuts of £55M next year but even then he will still be £36M short of his target. Copy No 1 of 8 copies



MO 8/2/12 He suggests a meeting on his return from Washington with you, the Home Secretary, Foreign Secretary, Chancellor and Industry Secretary. I think this is right. Agree?

PRIME MINISTER

AMM 12 ii

NOT TO BE PHOTOCOPIED

Can we get as far as we can with Treasury first?

DEFENCE EXPENDITURE 1981/82

When OD considered the draft White Paper on Defence I indicated that I would come forward shortly with a list of the further measures required to find the remaining £40 million out of the total programme reduction of £200 million in 1981/82. I must now add, however, to the £40 million a further minimum £14 million as a safeguard against a higher settlement than 6% for the civil service pay award; as well as measures amounting to a further £81 million which are required to balance expectation of even faster progress on the equipment programme for 1981/82.

2. Having reviewed in greater detail a number of the items included in the original (unannounced) list of reductions towards meeting the £200 million, I need to reprieve a £6 million cut in the Special Nimrod Squadron (required for essential intelligence work). This means that I still need to find a total of £141 million in 1981/82, ie £40 million + £6 million (Nimrod); £81m for block adjustments and a minimum of £14 million for pay cash limits.

3. The question I put to colleagues is this. a) Should I do it? If the answer is Yes b) How should I do it and when? And c) Do I need to announce publicly - and inform NATO - of what I am doing (only a few weeks after the earlier announcement).

4. Colleagues should remember that, although my announcement of 20th January, spoke of a £200 million reduction, it did, in fact amount to £850 million as a result of £650 million earlier adjustments



to 1981/82 resulting from the review of costings. In the process of finding this £650m we have already cut to the bone our ammunition stocks, training, recruiting, fuel usage and activity generally, compounding the difficulties caused by this year's moratorium on new orders and cuts in activity of the Services. This has proved necessary because the equipment budget is already over-committed and it is a fact of life that there is continuing upwards pressure on it. There is nothing else to cut. But if we carry on cutting activity there comes a point when the Government is made to look ridiculous, particularly one that claims to uphold the morale of the armed services. Indeed there is an urgent need to lift the restrictions on training and ammunition.

5. Nevertheless I must tell you how I would set about it, if we decide to go now for the full £141m; at the same time I must assure you that there are no easier options. The Annex sets out all those measures which I have considered. These total £158m or slightly more than would be needed. At Item No 25 I have drawn a heavy line which represents my own political judgement of how far we can go. Industry will of course feel the effects of the cuts, and we can expect some criticism, but if we stop at this point I do not think any further public announcements or messages to NATO are required, although I would need to talk around the subject during the debates on the White Paper.

6. If we were to stop where I recommend involving further programme reductions of £105m out of a total required of £141m, how do we find the balance of the estimated amounts required to bring the Defence Budget within the announced figures for 1981/82? I can only suggest the following broad path.



7. Next month I shall be considering the Long Term Costings covering the next 10 years. From these discussions will emerge in June/July my recommendations to OD for our future defence policy. It is likely to involve a number of major re-adjustments to our role, but more particularly a fairly radical set of proposals for the "mix" of forces and equipment to carry out our present commitment. I believe that, whilst it will be controversial particularly so far as industry is concerned, it will represent a coherent attempt to up-date and streamline our front-line capability to meet the changing nature of the Soviet threat. The important feature is that in place of continuing salami slicing we can explain to the Services, the country, and the Party what we are doing and why. This review will have to incorporate substantial savings in future years, not least because we are massively over-committed.

8. We should be ready with the result of this fundamental reappraisal at about the time that we review the 1981/82 cash limits (following the results of the 1980/81 cash outturn, and the Armed Forces Pay Review Body recommendations, together with the need to assess the Relative Price Effect of defence equipment). If we feel that we cannot go further now than I recommend, then we must find a method of absorbing the excess in the review of cash limits for 1981/82.

9. I conclude as follows: All programmes have their problems. Defence should not be exempt from the general rules. But the procurement programme is grossly over-extended. It cannot be changed to generate savings in the short-term. This means cuts have to continue to fall on activity. There is nowhere else to go.



Whilst I am quite prepared to undertake another exercise to include the whole of the list attached, announce it publicly and inform NATO; I think such a course would be politically daft. The consequences of the changes listed below the line in the Annex, set beside the relatively small sums involved - and put alongside £1 billion for BL and £5 billion for British Steel etc etc - would lead the general public to believe that we had taken leave of our senses. I could not recommend such a course of action to my colleagues as much as anything due to the likely consequences for the Conservative Party.

10. Finally it must be quite clear from the list - and from what I have said - that I see no possible means of finding a cash clawback for the expected £300m 1980/81 overspend when we come to review this matter.

11. In view of the highly sensitive nature of this minute I am sending copies only to the Home Secretary, the Foreign Secretary, the Chancellor, the Secretary of State for Industry and to Sir Robert Armstrong. You might like an early meeting to discuss it on my return from Washington.

SW.

Ministry of Defence

11th March 1981

	<u>SAVINGS</u>	<u>£M</u>
1. Further cut in civilian numbers		13.7
2. Do not place order for one destroyer/frigate (Type 42-15 (Vospers))		3.4
3. Reduce purchases of Sea Wolf missiles		1.0
4. Individual measures within the Naval weapons area including sonars, navigation equipment, missiles, radars and torpedoes		7.0
5. Further cuts in orders for Naval stores		5.1
6. Wavell battlefield computer (development work only and Plessey to fund)		4.8
7. Ptarmigan trunk communications system re-phasing		7.1
8. Possible diversion of CVR(T) (Tracked Combat Vehicle) production to overseas sales		3.0
9. Army internal security vehicle: delay one year		1.0
10. Army works - further reductions		4.0
11. Cut orders for B Vehicles (4 tonners and Land Rovers)		8.6
12. Reduce flying hours in RAF Fast Jet Force by more than one hour/pilot/month		8.5
13. Defer expenditure on the improved Harrier <u>GR5/AV8B</u> (ASR 409)		3.1
14. Sell Canberra B2s		6.0
15. Delete Griffon engine (Shackletons) repair capability		0.4
16. VC10 spares and engines; obtain cheap supplies by purchase of BA fleet		8.1
17. Consequential effects of economies already made in Long Term programme, mainly RAF equipment		6.4
18. Defer expenditure on meteorological satellite programmes		0.7

	<u>£M</u>
19. Reduce airmen recruiting to 5,000 from planned level of 8500	3.5
20. Suspension of RAF extra/mural training	0.3
21. Defer refurbishment of TV Whitehall closed circuit TV system	0.4
22. Cut in R&D capital equipment programme	2.0
23. Cut in R&D works programme	2.0
24. Further economy on travel	2.8
25. Reduction in expenditure on HMSO stores and supplies, office machinery, administrative computers and central civilian training	2.0
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SUB-TOTAL	104.9

26. Make greater cuts in Vulcan force by equivalent of further squadron:	
a. Five Maritime Radar Reconnaissance aircraft	3.5
b. Three strike aircraft	2.0
27. Delay Type 23 Frigate programme	0.9
28. Lay up <u>three more destroyers/frigates</u>	2.8
29. Further reduce <u>fleet activity</u> to produce 30% overall cut in <u>planned level</u>	5.1
30. Further reduce purchases of Sea Wolf missiles	3.0
31. Cut Milan top up order	1.5
32. Further cut in Army ammunition	6.0
33.    Still further delay in ordering first batch of 4 Minesweeper vessels (MSF: EDATS) by 3 years (Hall Russell, Aberdeen)	4.2



	<u>£M</u>
34. Cancel existing orders for Mine Counter-measures vessels (MCMV) programme (Vospers)	6.5
35. Sea-bed operations vessel (SOV): continue construction, launch and then put in mothballs without completion (Scott Lithgow) (£75m already committed)	9.0
36. Reduce TA man training days	1.0
37. Further cut in training ammunition (pyrotechnics, fuzes and explosives)	1.0
38. Further reduction of flying hours in RAF Fast Jet Force	4.5
39. Defer elements of the Nimrod MR Programme	1.8

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SUB-TOTAL 52.8

CONQUEROR