

PRIME MINISTER

Defence Cash Limit

This minute from the Chief Secretary, which has not been copied to other Ministers, is in response to your decision that the defence cash limit should, if necessary, be increased to compensate for the VAT and petroleum duty increases in the Budget. Mr. Biffen does not challenge your decision. However, he asks if he can count on your support if necessary in resisting proposals from other Ministers to break the discipline of cash limits, or to re-open decisions taken in Cabinet.

In fact, as I explain in my manuscript note at the end of Mr. Biffen's minute, no decision was taken in Cabinet against compensating departments for the tax increases in the Budget. You did endorse the Chief Secretary's line earlier, but there was no reason why Mr. Pym should not object to it - although he could have done so sooner. So there is no question of decisions taken in Cabinet being re-opened.

Shall I say that -

- (i) On reflection, you felt an exemption for defence was necessary; *Yes*
- (ii) You will support the Chief Secretary in resisting proposals from other Ministers to increase their cash limits; *Yes*
- (iii) The decision was not taken in Cabinet, and therefore the question of re-opening Cabinet decisions does not arise? *Yes*

11 July 1979

Prime Minister



PRIME MINISTER

DEFENCE CASH LIMIT

TPM

You have this in your box JL

As you will have seen from my letter of 10 July to the Defence Secretary, I have taken action in accordance with your view that, in the case of defence, we should go back on the previous Cabinet decision to hold cash limits for this year against price increases, including VAT.

2. But I must tell you of my regret and concern that we should be doing this.

Play A

3. Of course I recognise and accept our policy to help defence, and to maintain our international obligations in this field. But we have already done a lot for defence. As pointed out in my minute of 3 July, our decision on the pay award and the allocation of an additional £100 million to procurement have already increased the defence cash limits for the current year by £409 million. Now, although I intend to explore further with the Defence Secretary whether he could not manage with somewhat less, we look like announcing the addition of a further £180 million.

4. This is a significant amount by which to increase the PSBR this year. And it has a knock-on effect by raising the base from which the 3 per cent NATO commitment is calculated. Thus it removes at once about £200 million of the savings which I had in mind to make up the target of £6½ billion proposed in my paper for Cabinet this week.

5. We must also be careful about repercussions on the credibility of the cash limits system and the discipline which we intend the

system to impose. This applies both in the field of defence and generally. Cash limits depend on the understanding that once fixed, they will not be readily reopened.

X 6. I hope I can count on your support if necessary in resisting proposals from other Ministers to break the discipline of cash limits, or to reopen decisions taken in Cabinet.

7. The Chancellor of the Exchequer is aware of and agrees with this minute, but I am not copying it more widely.

W. J. B.

JOHN BIFFEN
11 July 1979

X The decision on cash limits - i.e. not to compensate Departments for the VAT increase - was not actually taken in Cabinet. The Chief Secretary ^{7/16/79 on Econ PA.} circulated a minute to this effect (Flag B) ^{(Put Exp) P42} which you endorsed and ^{to} which no Ministers raised any objection at the time.

12.



17 JUL 1979

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