SECRET

MT

Confidential Filing

Leak of documents on Defence Expenditure to the Press Association.

SECURITY

October 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~27.10.80~~							
~~7.11.80~~							
~~10.11.80~~							
~~19.11.80~~							
17.12.80							

PREM 19/356

Dd 533270 5M 2/78 8362633 JET

File Missing

2.

Defence

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01~~980~~ 218 2111/3

MO 22/5

17th December 1980

Prime Minister.

You should be aware of this development. It may lead to difficulties.

Tell 17xii

Dear Jim,

MINISTRY OF DEFENCE LEAK

My Secretary of State has asked me to record that we have good grounds for believing that the Press Association have released to members of the House of Commons Defence Committee copies of the leaked documents which are at present the subject of the Police investigation under the direction of the Director of Public Prosecutions.

I am sending copies of this letter to Clive Whitmore (No 10), John Halliday (Home Office) and David Wright (Cabinet Office)

Yours ever

Brian Norbury

(B M NORBURY)
Private Secretary

J Nursaw Esq

CONFIDENTIAL

cc: LPO
CDL
HMT
Ch. Wh.
AGO
CO
Security

SK

file

10 DOWNING STREET

From the Principal Private Secretary

27 November 1980

Dear Brian,

House of Commons Defence Committee:
Request for Leaked Documents

The Prime Minister has seen your Secretary of State's minute of 26 November 1980 about the request from the House of Commons Defence Committee that they should be given copies of all the documents about defence expenditure which were leaked to the Press Association.

She agrees that Mr. Pym should decline the Committee's request but at the same time offer them a memorandum on defence expenditure, in which he could respond to any particular questions the Committee wish to ask.

I am sending copies of this letter to Jim Buckley (Lord President's Office), Robin Birch (Chancellor of the Duchy of Lancaster's Office), Terry Mathews (Chief Secretary's Office), Murdo Maclean (Chief Whip's Office) Jim Nursaw (Attorney General's Office) and David Wright (Cabinet Office).

Yours ever,

Alex Whitmore.

Brian Norbury, Esq.,
Ministry of Defence

CONFIDENTIAL

CONFIDENTIAL

Security

[redacted]05 7641 Ext. 3291
Communications on this subject should be addressed to
THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

Our Ref: 400/80/316

27 November 1980

VMS

N J Sanders Esq
Prime Minister's Office
10 Downing Street
LONDON S W 1

Dear Nick,

HOURS OF COMMONS DEFENCE COMMITTEE : REQUEST FOR LEAKED DOCUMENTS

I write to record what I told you earlier today, namely that the Attorney General is satisfied that what the Secretary of State for Defence proposes in his minute of 26 November to the Prime Minister would in no way inhibit police investigations.

TPM for file

I am copying this to Brian Norbury and Robert Armstrong.

Yours sincerely,

Jim Nursaw

J NURSAW

CONFIDENTIAL

1.

Prime Minister.

Mr Lyon proposes not to release to the Select Ctee on Defence the papers that were leaked to PA. I think this is right; so does Brian Griffiths. But earlier you took the opposite view because not to release them could make us look silly (see attached papers).

What would you like Mr Lyon to do?

AWL
26/8

MO 22/5

Well Dr. Pym's proposed course of action seems to offer a special nerve. AWL

PRIME MINISTER

SECRETARY OF STATE

HOUSE OF COMMONS DEFENCE COMMITTEE: REQUEST FOR LEAKED DOCUMENTS

As you know, I have been considering how I should respond to the request put by the House of Commons Defence Committee - which the Committee has made public - to provide it with copies of all the documents relating to future levels of defence expenditure which were earlier improperly disclosed to the Press Association.

2. I am persuaded that, although these documents are now to some extent in the public domain and it is awkward to refuse their transmission to a House Committee, it would be wrong - largely on the grounds of setting an unfortunate precedent - to release them since it would jeopardise two essential principles relating to:

a. the confidentiality of advice given by officials to Ministers, and

b. the confidentiality of the process of consultation between Ministers, and between Departments on their behalf, and the level and manner in which decisions are taken.

We laid particular emphasis on these principles in the Government's reply to the First Special Report from the Education, Science and Arts Committee (Command 7982, presented on 24th July). They are perhaps particularly relevant in this instance now that the Cabinet has taken and made public its decisions on the matters which were under discussion in the leaked documents.

3. I therefore propose, subject to your views, to decline the Committee's request but, in doing so, to offer a memorandum on defence expenditure, responding in particular to any particular questions the Committee may wish to ask.

4. I would like a reply to go to the Committee, if possible, by the end of this week.

5. I am sending copies of this minute to the Lord President, the Chancellor of the Duchy of Lancaster, the Chief Secretary, and the Chief Whip; to the Attorney General in view of the investigation the Police are now making into the leak; and to Sir Robert Armstrong.

FH

Ministry of Defence

26th November 1980

PERSONAL AND CONFIDENTIAL

Security

CIVIL SERVICE DEPARTMENT
WHITEHALL LONDON SW1A 2AZ
Telephone 01 273 5400

Sir Ian Bancroft G.C.B.
Head of the Home Civil Service

Sir Frank Cooper GCB CMG
Ministry of Defence
Main Building
Whitehall
LONDON SW1

18 November 1980

Dear Frank,

Thank you for your letter of 18 November. What an astonishing and bizarre story. I must say that I agree with the views of your people as set out in paragraph 10 of your letter - "a black propaganda exercise" - and not a very good one at that.

Copies to Robert Armstrong, Michael Palliser, Brian Cubbon, Ken Stowe, James Nursaw, Clive Whitmore, and Howard Smith.

Yours ever,
Ian

IAN BANCROFT

PERSONAL AND CONFIDENTIAL

C A Whitmore Esq

OKO

FK

PN

1/2/81

With

the Compliments of

Sir Frank Cooper, G.C.B., C.M.G.

Permanent Under-Secretary of State

MINISTRY OF DEFENCE
SW1A 2HB

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 2193 (Direct Dialling)
01-218 9000 (Switchboard)

PERMANENT UNDER-SECRETARY OF STATE
SIR FRANK COOPER GCB CMG

PUS/80/1096
54/2/4

Mr Duchemin
To see.
18/11

Sir Ian Bancroft GCB
Civil Service Department
Whitehall
LONDON SW1

18 November 1980

Dear Ian.

I think I ought to put down on record - not least in case it reappears - the facts surrounding the publication on Sunday last of an article in the Irish newspaper, the "Sunday World", in Dublin.

2. About 8.30 on Saturday evening I was telephoned at home by a man who said his name was Mark Chapman from ITN and was in a hurry to deal with something that would come out on the 10.00 news. He asked me whether I knew that a Dublin newspaper was going to publish an exclusive article, with pictures, saying I was the MOD mole! I said I had no idea and that I was utterly amazed. He began to ask a series of increasingly offensive questions and I instinctively realised that I was being taped. I challenged him. He admitted it and said he was going to raise later the question of usage. I made it clear that there could be no question of usage and that if he did so I would report him to ITN, the IBA etc etc. He backed off and said it was only an electronic memory pad. The conversation terminated rather sharply.

3. I agreed with our own Press people that the line to take would be to confirm my Secretary of State's public statement about handing the matter over to the police and, as background, to say it was a completely unfounded report. Arrangements were made to inform No 10 and my own Secretary of State. During the next few hours I received a good number of telephone calls but referred these back to our Press office here.

4. As far as I am aware, nothing appeared in the papers here and there was nothing on either the radio or television. The article was, however, published in the Sunday World. Both a photocopy and a typed version are attached for ease of reference. Some of it at least is a mish-mash of what

has appeared before in local papers about my own time in Northern Ireland and about the Chiefs of Staff in the Daily Telegraph here.

5. On Sunday evening I was waylaid by a man from the Daily Mail called Gareth Woodgates who, to be fair, was extremely civil. I explained the position to him flatly and on the basis of the line we had agreed to take. He showed me the article - it was I think the first time anyone had seen it - which curiously enough was on three pieces of green paper and from memory had one addition at the front which indicated that it was datelined London. This, perhaps interestingly, does not appear in the Sunday World. It was also interesting that there was a reference to "Top Secret" documents (which as you know is untrue) and to three Chiefs of Staff (whereas there are four) which seems to tie up with the Daily Telegraph article of 25 October. Woodgates' questions tended to be related to the idea that someone was paying back an old score on me and did I know Lawless (who I do not think I do) who was an IRA front man. Woodgates left, sent in a photographer about 20 minutes later who was naturally turned away, and apart from a few telephone calls matters rested there.

6. Perhaps I can now turn to the background. Our Press people here had known for rather more than 10 days that ITN reckoned to have details of the mole but they were displaying great reluctance to reveal any information. The view our Press people took was that their ground was uncertain and that they were very worried about libel actions. There was also some doubt as to whether they had a name.

7. On Friday last, 14 November, our Press office learned that ITN did not intend to proceed with the information they claimed to have but that they had indicated that it might come out in Ireland over the coming weekend as that would overcome the problems of libel etc. We had, of course, no idea that my name was going to be involved. It was, however, clear that some kind of story was circulating around Fleet Street and that people were extremely chary of touching it.

8. In subsequent conversations with ITN (the main contact has been a man called Thompson who has been with ITN for a number of years and previously was a correspondent on a number of newspapers including, I think, the Daily Mail) one or two other points have emerged. First, ITN say they have dropped the story. Second, they still claim to have the name of the mole but have confirmed that it is not me - we are not convinced that they have any names. Third, they have dropped hints that there was a Stormont connection and that one or possibly more Westminster Members of Parliament were involved. I think Stormont here could be taken to mean some kind of Irish connection. I do not think we shall get any more out of them; they will not of course repeat this elsewhere.

9. The author of the article, Gery Lawless, has a name which is well known in Irish Republican circles. He is a prominent Irish Republican Activist who has been associated with the Troops

Out Movement and also with the International Tribunal on British Presence in Ireland. Politically he is regarded a Trotskyist. He was a member of the International Marxist Group. He is a professional journalist being the London representative of the Irish Sunday World. He freelances for the Hibernian which is a left wing Dublin weekly. He has written a number of articles on British Intelligence and regards himself and is probably so regarded as an investigative journalist. He has connections with other investigative journalists. His contacts include the French Left Wing Liberation. His main motivation is said to be hatred of the British and personal ambition. It is believed that an article in the Sunday World circulated to embarrass the British MOD would be right up his street.

10. The conclusion our people have come to here is that it was a black propaganda exercise.

11. I have sent copies of this to Robert Armstrong, Michael Palliser, Brian Cubbon, Ken Stowe, Bill Beckett and Clive Whitmore.

Yours ever

Frank Cooper

FRANK COOPER

FRIDAY WORLD, NOVEMBER

For Mr KIRC Sir Frank Cooper's office VIA MO4 MOD.

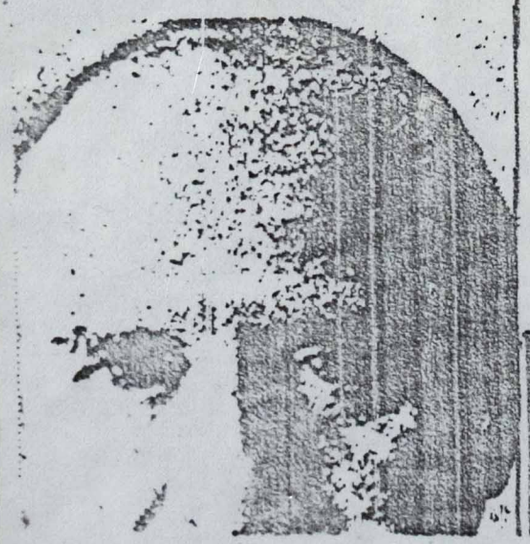
FOR THE BRITISH GOVERNMENT WE UNCOVER MAGGIE'S MOLE

THE TIP OFF MAN!

Maggie Thatcher. . .enraged over leaks.

PY catchers from Britain's internal security service, MI5 have named the "mole" who enraged Premier Maggie Thatcher by leaking top secret defence documents to the press.

NAMED!



Exclusive By GERRY LAWLESS

A secret 'For the Eyes Eyes Only' report from MI5 headquarters in Curzon Street named Sir Frank Cooper as the mole.

Cooper was the senior civil servant in charge of negotiations with the IRA in the North in the early 70s. He also served as chief negotiator with Archbishop Makarios during the Cypriot struggle for freedom.

The dapper dayan of the defence department is now again, at the centre of a bitter political storm.

The documents which he is alleged to have leaked to the Press Association 17 days ago showed that the Thatcher cabinet was considering cut-backs in the defence budget.

This was in line with what the Treasury wanted, in the interests of slashing public expenditure.

But it angered both service chiefs and Tory right-wingers, who are in favour of cutting most public spending but of increasing spending on war weaponry.

Lobby correspondents reported last week on Defence Minister Francis Pym's determination to resign in the face of pressure to make the cuts.

It is believed that the leak was intended to alert the Tory peers and the parliamentary right wing to the Treasury pressure for cuts and thus to build up counter-pressure.

Similar documents were leaked during the last days of the Labour Government but then the three Chiefs of Staff took joint responsibility for the leak and threatened to resign if the frightened Labour Government took any action under the Official Secrets Act. The Government backed down.

When the latest leak took place suspicion immediately fell on the current Chiefs of Staff, General Edwin Bramall, Admiral Sir Henry Leach and Air Chief Marshall Sir Michael Beetham.

But last week I learned from a highly placed Whitehall source that MI5 had cleared the three Defence Chiefs and fingered Sir Frank for the latest rather clumsy attempt to bulldoze the Tory Government into a policy change.

Mrs. Thatcher was reported to be furious at the latest revelations which show her as less than candid with other NATO leaders. She ordered no fewer than five different security and intelligence agencies - MI5, MI6, the Ministry of Defence, Police Department, the Special Branch and the tiny Directorate of HQ Intelligence coordinated by her own security adviser Angus Maude - to conduct independent probes to find the mole.

A break-through in the mole hunt discovered that the mole was a man worried about the cancellation of orders for secret military equipment for use by the British Army in the North. This alerted them to a possible Northern connection.

We uncover Maggie's Mole

Spy catchers from Britain's internal security service, MI5 have named the "mole" who enraged Premier Maggie Thatcher by leaking top secret defence documents to the press.

A secret "For the PM's Eyes Only" report from MI5 headquarters in Curzon Street names Sir Frank Cooper as the mole.

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COVERING

CONFIDENTIAL

Defence Papers

1

CLIVE AW.
To see + return
BN please
MS
13/11

LEAK OF DEFENCE PAPERS TO THE PRESS

LINE TO TAKE

1. On 24th October the MOD obtained from the PA copies of 6 documents, 5 of them classified, which had been disclosed without authority.

2. In accordance with the recognised procedure in Whitehall [NOTE: Chapter 18 of "Security in Government Departments"] the Secretary of State for Defence determined there should be a formal leak inquiry and the Permanent Secretary appointed an investigating team. The investigation has reached a stage at which the Defence Secretary and the Attorney General have agreed that, as is normal when there is a possibility of legal proceedings, it should be continued by the Metropolitan Police under the direction of the Director of Public Prosecutions. The results of the investigation to date have been made available to the Police; and police enquiries are continuing.

COVERING

CONFIDENTIAL

Background Note

Defence Expenditure Cuts Leak

1. Reports first appeared in the Press on Friday, 24 October, quoting from 2 official documents, of the possibility of further cuts in defence expenditure. The documents which had apparently been leaked to the Press Association (PA) were said to be a letter from the Chief Secretary to the Treasury to the Secretary of State for Defence and a minute from Sir Frank Cooper, Permanent Secretary, MOD, to the Secretary of State.

2. An investigation team was formed consisting of Dr. D. Payne a recently retired member of the Security Service as leader, together with Mr. D. Hopkins, Director of Headquarters Security, MOD, and members of his division.

3. The MOD Deputy Chief of Public Relations visited PA, and was given photocopies of the 2 documents quoted, together with photocopies of 4 others, all internal MOD papers, which PA had received from their source. Mr. Chipp, the PA Editor in Chief, stated that the papers received from MOD were no longer in their possession. Of the documents, 1 was SECRET, 4 CONFIDENTIAL and 1 UNCLASSIFIED.

4. On examination of the PA photocopies it became clear that although the more obvious identifying marks ~~were immediately~~ had been masked, certain markings remained. MOD security inspectors were immediately sent to gather in all existing copies of the 6 documents in MOD. A close examination of these indicated that certain of the photocopies held by PA had been taken from copies of the documents held in a particular area of MOD.

Interrogation of staff within that area indicated that only 1 person had seen all pages of all 6 documents; and separate enquiries suggested that this person had been a fellow undergraduate some years ago with the PA reporter handling the story.

5. Clearly the next step was the interrogation of the prime suspect and of a number of other persons. Since such a step might have prejudiced the possibility of legal proceedings, the position reached was described to the Attorney General. The Prime Minister and the Secretary of State were then told that the Attorney General wished to consider the possibility of a prosecution of the offence under the Official Secrets Acts. MOD therefore presented the results of their enquiries to DPP at a meeting on 10 November, and subsequently handed over the investigation to the Metropolitan Police. Police enquiries have begun.

SUPPLEMENTARY QUESTIONS AND DRAFT REPLIES

Have the Ministry of Defence found the 'mole'? Is an arrest imminent?

The results of the MOD inquiry have been passed to DPP and the Metropolitan Police, and police inquiries are now being made. It is not appropriate for me at this stage to speculate whether the mole has been found or whether an arrest is imminent.

Does the transfer of the inquiry to the police mean that the Ministry of Defence inquiry has proved useless?

No Sir, MOD has passed on interesting and significant information to the police.

Is it the usual practice to transfer an investigation of this kind to the Police and DPP?

Yes, whenever the results of a security investigation require the possibility of taking legal proceedings to be seriously considered.

Is there a serious possibility of prosecution under that discredited and out of date Section 2 of the OSA?

This will be a matter for my Rt Hon and learned Friend the Attorney General when he considers DPP's report. 5 of the 6 documents leaked were classified and I must say that there appears to be a clear prima facie case of unauthorised disclosure

Should not the 'mole' be praised for his public-spirited action in revealing the threat to defence expenditure?

Unauthorised leakage of official information by crown servants is a disloyal and irresponsible breach of trust.

Has not the 'mole' worked to the advantage of MOD?

My Government is not swayed by the activities of moles.

Should there not be more Freedom of Information?

The Government's position on that subject was made clear last year. It is the practice of this Government to make as much information as possible available. [reference Mr Channon, House of Commons 20 June 1979]

INQUIRY INTO LEAK OF DEFENCE PAPERS PASSED TO YARD

D/TEL P8 12/11/80

THE Director of Public Prosecutions, Sir Thomas Hetherington, has been given details of a Ministry of Defence investigation into how top-level papers on defence spending were leaked last month.

Scotland Yard will now continue inquiries to track down a "mole" who passed six documents to the Press Association news agency, it was disclosed last night.

The documents revealed a warning by Service chiefs that defence spending had been reduced dangerously and that the Treasury wanted £400 million a year cut from forces' spending.

When the Yard investigation is complete, the DPP will decide whether prosecutions should follow. But it is understood that the initial inquiry, which was monitored and aided by the two main branches of state security, D15 and D16, may have found the source of the leak.

'Fury' at No. 10

The Defence Ministry said in a statement last night: "The Secretary of State for Defence (Mr Pym) announced on Oct. 24 that he had ordered an investigation into the unauthorised transmission of certain documents to the Press Association.

"The investigation has now reached a stage at which he and the Attorney General have agreed that it would be appropriate for it to be continued by the Metropolitan Police under the direction of the DPP. The Secretary of State is making available to the police the results of the investigation to date."

There was reported to be "fury" at 10, Downing Street when Mrs Thatcher, who had been concerned for some time about Whitehall leaks, learned about the defence documents. They showed not only concern among the military about reduced spending but also cast doubts on the Tories' General Election commitment to improve defence.

The information was handed to the Press Association presumably to ensure the widest possible coverage. Two documents, both heavily restricted, were at the centre of the initial investigation.

One was a confidential memorandum to Mr Pym from Sir Frank Cooper, Permanent Under-Secretary at the Defence Ministry, saying that chiefs of staff were "naturally seriously concerned" about the effect on operational capabilities of reduced spending.

The other, marked secret, was a letter to Mr Pym from Mr John Biffen, Chief Secretary to the Treasury, recalling that Mr Biffen had originally asked for savings of £140 million a year, from defence, from 1981-82 to 1983-84.

It added: "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."

The nature of the documents suggests that what began as a clumsy attempt to force the Government into a change of defence spending policy got out of hand, and it is now a matter with implications for national security. Criminal charges could be involved with, possibly, a breach of the Official Secrets Act of 1911 forbidding unauthorised communication of official information.

The Press Association, itself, said last night that the first inquiry, headed by the Ministry of Defence security chief, Mr David Hopkins, aided by MI5, claimed to have unearthed the "mole." And it is unlikely the Yard would be called in if detectives could not be presented with a name or two to follow up.

Defence leak inquiry handed to police

TIMES P1. 12/11/80

By Peter Hennessy

The results of the two-and-a-half-week inquiry by the Ministry of Defence into the passing of six confidential documents to the Press Association last month are to be handed over to the Metropolitan Police for further investigation, the ministry announced yesterday.

The statement said Mr Francis Pym, Secretary of State for Defence, had consulted Sir Michael Havers, QC, the Attorney General, who had both agreed that Scotland Yard should take over the case under the direction of Sir Thomas Hetherington, the Director of Public Prosecutions.

The ministry was unwilling to elaborate last night, but it seemed clear that Mr David Hopkins, its director of headquarters security who led the inquiry had succeeded in finding the "mole" who leaked the highly embarrassing, though not security-sensitive, papers dealing with the future level of defence spending.

Arresting the culprit and taking a decision on whether to prosecute are beyond the ministry's competence. Mr Pym, it was said, felt it proper to make his statement, as the investigation had "changed gear".

The involvement of the Attorney General, whose fiat is necessary before cases can be brought under section 2 of the Official Secrets Act, 1911, indicated that the generally discredited "catch-all" statute could be used against the Crown servant involved.

The speed with which Mr Hopkins completed his task hints at the possibility of a confession having been made when the person concerned was confronted with the suspicion of guilt.

Another possible explanation is that Mr Hopkins was greatly assisted by the fact that the documents were circulated to a small group of ministers, military and senior civil servants on the sixth floor of the ministry's Whitehall headquarters. Even fewer individuals received all six documents.

Officials in the Treasury's defence material division and the private office of Mr John Biffen, Chief Secretary to the Treasury, were swiftly ruled out in Mr Hopkins's inquiry.

Mr Hopkins's file on the case will be transferred to Detective Chief Superintendent Kenneth Merton, of Scotland Yard's C1 branch, which includes the murder squad and responsibility for industrial espionage cases.

The vigour with which the mole has been pursued by Mr Hopkins stems, however, from fury on the ministry's sixth floor at the disloyalty to Mr Pym implicit, so officials argue, in the act of leaking.

3 E1

MOLE NAMED BY LEAK INQUIRY

12/11/80 D/TEL P1

Daily Telegraph Reporter

THE "mole" in the Ministry of Defence who passed on documents on Treasury plans for defence spending cuts is believed to have been named in a security inquiry.

Details of the case have been sent to the Director of Public Prosecutions, and although there was no official confirmation, it was believed last night that the name of a civil servant had been given to the police.

Charges are expected to be brought, and if the Yard is satisfied with the inquiry information, a preliminary hearing in the magistrates court could be held this week.

Police in mole hunt

GDN P1 12-11-80

By Richard Norton-Taylor

The Ministry of Defence said yesterday that it had handed over to the police the responsibility for pursuing investigations into last month's leak to the Press Association news agency of confidential documents relating to military spending.

An official announcement said that the investigation, led by Mr David Hopkins, head of the Ministry's security who was helped by MI5, had reached a stage at which Mr Francis Pym, the Defence Secretary, and the Attorney-General, Sir Michael Havers, had agreed that it would be appropriate for it to be continued by the Metropolitan Police under the direction of the Director of Public Prosecutions.

Whitehall sources suggested last night that the decision to switch the investigation from an internal inquiry to a fully-fledged police inquiry, to be conducted by Detective Chief Superintendent Ken Merton from Scotland Yard's serious crimes branch, indicated that the source of the leak had not been discovered.

E/TIMES P7

Police join search

THE MINISTRY of Defence has passed to the Metropolitan Police its investigation into the unauthorised transfer of Ministry documents to the Press Association last month.

4

5 traps the mole

By GORDON GREIG, ANGUS MACPHERSON and HARVEY ELLIOTT

D MAIL. P1/2 12.11.80.

A SENIOR civil servant at the Defence Ministry may be charged within the next few days with leaking confidential papers.

He is believed to be named in an MI5 report as the Ministry mole who gave documents about spending cuts to a journalist.

The MI5 dossier is being sent to Scotland Yard today, following talks between Defence Secretary Francis Pym, Attorney-General Sir Michael Havers and the Director of Public Prosecutions Sir Thomas Hetherington.

The Yard enquiry will be run by Detective Chief Superintendent Ken Morton, of the C1 Branch, which deals with serious crimes ranging from murder to industrial espionage.

Interviewed

He will report back to the DPP. But the final decision on an arrest and prosecution under the Official Secrets Act will be made by the Attorney-General.

MI5 investigators—working under the direction of the Ministry's security head, David Hopkins—narrowed down the probable source of the leaked documents to one department within the Ministry.

Many officials were interviewed, some up to four times. As a result, the investigators are now certain they know who was responsible—a senior civilian employee and not, as was suspected at first, a Service officer.

However, it is understood that no-one has yet admitted to being the mole.

A furious Mrs Thatcher demanded action against the culprit after three documents detailing arguments between the Defence Ministry, the Service chiefs and the Treasury on cuts in the weapons programme were leaked.

The leak largely served its apparent purpose. One of the documents disclosed that the Treasury's Chief Secretary John Biffen was demanding new savings on the defence budget of £400 million only three months after a cut of £140 million.

Then, as other documents were released showing a bitter argument over economies which could hit basic defence strategy—economies concerning the Trident nuclear submarine project, the Challenger battle tank, the Harrier jump-jet fighter and even fuel reserves — Tory MPs reacted in fury.

It took two meetings between Mr Pym and the party's backbench defence committee to smooth out the trouble.

Mr Pym made it clear that the Tory election promise of expanding Britain's financial commitment in NATO would be honoured.

Labour MPs are claiming that the figures are being juggled in an effort to show the Treasury has not been able to prune the defence programme as much as it wished.

But without that leak, Mr Pym would almost certainly have had a much harder fight to hold his corner. And it was the private warning by 30 Tory Right-Wingers that any major cut would lead to revolt that gave the Defence Secretary the edge.

THE MOLE'S IN A TRAP SAYS MI5

12/11/80 D EXPRESS P3

TOP men in MI5 believe they know the "mole" who leaked secret Government papers last month.

Details of their inquiry carried out in conjunction with a Defence Ministry team, have been passed to the Director of Public Prosecutions.

A Defence Ministry statement said an investigation into the unauthorised transmission of documents to the Press Association had been under way for some time.

The Attorney-General had now agreed that it would be appropriate for it to be continued by the Metropolitan Police under the direction of the DPP.

Sources said the investigating team were sure they knew the identity of the "mole."

The documents disclose that the Treasury was seeking big cuts in defence spending.

MI5 team name mole

D MIRROR P2 12-11-80

SPY-CATCHERS have unearthed the Whitehall mole who leaked secret papers to the Press Association news agency.

The informant's name has been given to the Director of Public Prosecutions.

The three-week investigation was carried out by a team from MI5 and the Defence Ministry.

It was ordered by Premier Margaret Thatcher following the leak of secret papers revealing a tussle between the Ministry and the Treasury, over £400 million spending cuts.

The Director of Public Prosecutions will now call in Scotland Yard's Serious Crime Squad for further inquiries.

ALISTER MARTIN

MAGGIE'S MEN UNEARTH A MOLE

SUN P2 12-11-80

By JOHN HILL

SECRET SERVICE men have tracked down the "mole" who leaked top-level defence secrets.

The findings of a Government spy-catching team called in by Premier Margaret Thatcher, have been handed to the police and the Director of Public Prosecutions.

Last night the Ministry said Defence Secretary Francis Pym now considered it would be "appropriate" if the Metropolitan Police took over.

Cuts

Mrs Thatcher was furious when the Press Association news agency received copies of documents revealing a number of defence secrets.

The leak showed that the Treasury was seeking further cuts in defence spending—and that Service chiefs were concerned about the effects.

The leak inquiry was started by Defence Ministry security chief David Hopkins.

'Mole' spotters give police case

MIRR P3 12/11/80

FINDINGS of the top-level Defence Ministry investigation into how secret ministry papers were passed to the Press Association have been given to the police and Director of Public Prosecutions, it was announced yesterday.

Authoritative sources said the inquiry, led by the head of defence ministry security, David Hopkins, and aided by members of MI5, had claimed to have found the so-called "mole."

A defence ministry statement said: "The Secretary of State for Defence announced on October 24 that he had ordered an investigation into the unauthorised transmission of certain documents to the Press Association.

"The investigation has now reached a stage at which he and the Attorney-General have agreed that it would be appropriate for it to be continued by the Metropolitan Police under the direction of the Director of Public Prosecutions.

"The secretary of state is making available to the police the results of the investigation to date."

The Press Association has not been approached by the investigation team, who were ordered to report directly to Mr. Pym. A ministry spokesman refused to elaborate on yesterday's statement.

Scotland Yard said Det. Chief Supt. Ken Merton of the C1 branch — the section which deals with serious crimes, ranging from murder to industrial espionage — has been put in charge of the inquiry. He will be liaising with the DPP's office.

The documents disclosed that the Treasury was seeking cuts in the planned rise in defence expenditure, and showed the anger of service chiefs.

They were leaked only days before the Cabinet got down to a series of meetings to hammer out where a new round of expenditure cuts would fall.

Security

CONFIDENTIAL

[redacted]5 7641 Ext. 3291
Communications on this subject should be addressed to
THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

Our Ref: 400/80/316

12 November 1980

C A Whitmore Esq
Prime Minister's Office
10 Downing Street
LONDON S W 1

Pls.
AWL
13xi

Dear Clive,

MINISTRY OF DEFENCE LEAK

Thank you for your letter of 10 November. The Attorney General is grateful to the Prime Minister for her offer to hold a meeting to discuss, should this be necessary, the public interest aspects of a possible prosecution. I will get in touch with you when we know what the Police investigation has produced.

Copies to John Halliday (Home Office), Brian Norbury (MOD) and David Wright (Cabinet Office).

Yours sincerely,

Jim Nursaw

J NURSAW

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Security

10 DOWNING STREET

From the Principal Private Secretary

10 November 1980

Dear Jim,

MINISTRY OF DEFENCE LEAK

The Prime Minister has asked me to thank the Attorney General for his letter of 6 November 1980. She has also seen Brian Norbury's letter of the same date to me.

Like the Defence Secretary, she is content that the Ministry of Defence's enquiry should be suspended and that the investigation should now be pursued by the police under the direction of the Director of Public Prosecutions.

The Prime Minister understands that the decision to prosecute is wholly a matter for the Attorney General. If, however, he wished to consult his colleagues before taking his decision, she would be ready to hold a meeting with him, the Home Secretary and the Defence Secretary. But, again, she has emphasised that that too is entirely a matter for his initiative.

I am sending copies of this letter to John Halliday (Home Office), Brian Norbury (MOD) and David Wright (Cabinet Office).

Yours sincerely,

Clive Whitmore.

James Nursaw, Esq.,
Law Officers' Department.

CONFIDENTIAL

GB

CONFIDENTIAL

PRIME MINISTER

MINISTRY OF DEFENCE LEAKS

The investigation into the leak to the Press Association of papers about cuts in defence expenditure has made considerable progress, and it now seems likely that the culprit will be identified. I am told that he is thought to be a young Principal serving in the Pay and Pensions Division of the Navy Department (if this proves to be so, I think the MOD will need another inquiry to establish why it was necessary for somebody so far removed from the central policy area of the MOD to have access to these papers).

The Attorney General has now written (flag A) saying that he proposes to turn the present inquiry into a police investigation under the DPP against the possibility that he will want to institute a prosecution. He points out, however, that while the leak is an offence under the existing law, he does not believe it would have been a criminal offence under the Franks proposals or under the Government's own Protection of Official Information Bill which was dropped last year.

Mr. Pym is content for the MOD's investigation to be suspended and the matter pursued by the police (flag B).

Sir Robert Armstrong in his minute at flag C takes the same view. He goes on to suggest, however, that the Attorney General should seek the views of Ministers before he takes his decision whether to prosecute. Shall we arrange a meeting at the appropriate moment for this purpose with the Attorney General, Mr. Whitelaw and Mr. Pym?

I sit. prosecution wholly a matter for the A-G? We cannot demand to be heard but he may, on his initiative consult us.

MT

THW.

7 November 1980

CONFIDENTIAL

CONFIDENTIAL

2

Prime Minister.

We are still waiting for Mr Ryan to let us know what course he proposes to take.

TPL

7xi

I think he should have to release them. Otherwise he will be made to look very foolish. MT

Ref. A03497

MR. WHITMORE

Reductions in Defence Expenditure: Leak

I minuted you on 4th November (A03421) about the request from the Select Committee on Defence to be given copies of the leaked documents.

2. I should add that, since I sent you that minute, we have been told privately by the Clerk of Committees of the House of Commons that we ought to take seriously the Press reports that, if the documents were not supplied, the Select Committee would report the matter formally to the House of Commons in the hope that their request would be supported by a vote on the floor of the House. That could obviously lead into a debate on the questions of the powers of Select Committees to obtain official papers.

3. I doubt whether this is a very good case on which to stand, if the Select Committee seems likely to press matters to a formal confrontation on the floor of the House. It may be that the right course is, after all, to agree that the Secretary of State should make the papers available on a confidential basis, emphasising that he is doing so simply because they have been leaked, and despite the fact that they are documents which would not normally be available to Select Committees.

RA

ROBERT ARMSTRONG

7th November, 1980

CONFIDENTIAL

MR. WHITMORE

Select Committee and Leaked Papers

You may find useful my comments on your minute to the Prime Minister of last evening on the above. They are as follows:

- My reading of current rules indicates that the leaked documents would not, in normal circumstances, rank for release to a Select Committee.

- Without inside knowledge, a Select Committee would not be able to make a specific request for these particular documents.

- We should not encourage people to the view that a document will be given to a Select Committee if it becomes, however improperly, the property of the press and public.

- It will be extremely difficult to draw the line if we were to cave in, against supplying (a) other documents mentioned in the leaked papers; and (b) other papers which are leaked in future.

- It may not be a large step once a Select Committee secures access to leaked documents for the media generally to demand similar access given that the contents are public property; certainly I and Departmental Press Offices would expect to come under increasing pressure to release leaked papers more widely.

- Caving in would limit Government's room for manoeuvre; we ought to retain the option for ourselves to decide when and how to handle and follow up unauthorised leaks.

/- I

- I am very sceptical as to whether a confidential disclosure of the leaked documents could be sustained and I find it difficult in practice to distinguish in public terms between formal and informal disclosure.

- We shall no doubt look rather silly for a bit but the key thing surely is to do nothing, especially at this time, to encourage the habit of leaking - and this was a very serious leak - or to damage the confidentiality of the conduct of Government business.

Stuffy, this may be. But necessarily stuffy, I contend.

B. INGHAM

6 November, 1980

CONFIDENTIAL

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

01-405 7641 Extn

6 November, 1980

Dear Prime Minister.

MINISTRY OF DEFENCE LEAK

The Ministry of Defence have very properly consulted me on their investigation into the recent deliberate leak to the press of certain of their papers, including a secret letter from John Biffen to Francis Pym on cuts in defence expenditure and a minute by Sir Frank Cooper, in which he reported the misgivings of the Chiefs of Staff on that matter. The field of inquiry has considerably narrowed down and the investigation has now reached the point where, if it continues on the present footing as an "in-house" investigation, it might prejudice my ability at a later stage to bring criminal proceedings against anybody in respect of whom a prima facie case has emerged. After careful consideration, I have decided that, if such a case is established, the public interest does - or, at any rate, might - require me to institute a prosecution and that it would therefore be wrong to allow anything to be done now which would foreclose that possibility. I am therefore requesting the Ministry of Defence to suspend their own investigation and I am arranging for the investigation to be pursued, instead, by the police under the direction of the Director of Public Prosecutions.

I am bringing this matter to your attention because, as well as its inherent sensitivity, it has the peculiar difficulty that I do not think that the offence that has undoubtedly been committed under the law as it now stands would have remained a criminal offence under the Franks proposals or under our own Protection of Official Information Bill which we had to abandon at the end of last year.

I am copying this letter to Francis Pym and Willie Whitelaw and also to Sir Robert Armstrong.

Yours ever

Michael.

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
London, SW1

CONFIDENTIAL

-6 NOV 1980

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CONFIDENTIAL

cc David Wright

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-930 7022 218 2111/3

MO 22/5

6th November 1980

Dear Clive,

MINISTRY OF DEFENCE LEAK

The Attorney General sent my Secretary of State a copy of his letter to the Prime Minister of 6th November.

My Secretary of State is quite content to accept the Attorney General's decision that the Ministry of Defence investigation should be suspended and that the matter should be pursued by the Police under the direction of the Director of Public Prosecutions. The Ministry of Defence will give them every possible assistance in making available the results reached so far in our own enquiries.

The eventual decision whether or not to institute a prosecution will, of course, be for the Attorney General; but if, when the Police investigation has been completed, he wishes to consult further about the public interest aspects as they may then appear, my Secretary of State would be glad to be offered an opportunity to comment.

I am sending copies of this letter to the Private Secretary to the Home Secretary, the Legal Secretary to the Law Officers and the Private Secretary to the Secretary of the Cabinet.

Yours ever,
Brian Norbury

(B M NORBURY)

C A Whitmore Esq

CONFIDENTIAL

C

Ref: A03489

MR WHITMORE

MINISTRY OF DEFENCE LEAK

I have seen the Attorney General's letter of 6 November to the Prime Minister.

2. My understanding is that the investigation has narrowed the field of suspicion pretty conclusively to one Section of the Ministry of Defence, and in fact to one or two Civil Servants in that Section. A confession is thought to be not impossible. If therefore the possibility of prosecution is to be kept open, the investigation should be put in the hands of the police. The Attorney General is so arranging, and I do not think that the Prime Minister need object ~~should accept~~.

3. That the investigation has gone so far is a credit to those who have undertaken it, and in particular (if I may be allowed to crow ever so slightly) to the former member of the Security Service now on the staff of the Cabinet Office who has been mainly responsible for it.

4. The decision whether to prosecute is of course for the Attorney General, and not for Ministers; but the Attorney General has the duty to consider the public interest and the right to seek the views of Ministers on the public interest in the matter, before taking his decision. I think that the Prime Minister should have a meeting with him, and with the Secretaries of State for the Home Department and Defence on this.

5. The Attorney General is clearly envisaging the possibility of a prosecution under Section 2 of the Official Secrets Act 1911. An offence under that Section has no doubt been committed. But successive Law Officers in recent years have worked, and have been known to be working, to a convention that they would not authorise prosecutions on charges which would not be an offence under the Franks proposals (or successive Government variants of them). This particular leak would probably not be an offence under revised legislation;

and, although it was undoubtedly flagrant, and very embarrassing to the Government, it would not be easy to sustain in Court an argument that national security had been prejudiced by it. If there is a prosecution under the Official Secrets Act, we shall hear a good deal from the media on this aspect of the matter, and the defendent will be built up as something of a martyr and hero in the cause of "open government" and freedom of information.

6. It may be that the leak was so flagrant that the civil servant concerned should be subject to the full vigour of the law as an example to others, notwithstanding the disadvantages of that. But consideration should at least be given to the alternative. I think that these are -

1. a criminal prosecution for theft;

2. civil proceedings for breach of confidence;

3. no proceedings at law, but disciplinary proceedings leading to dismissal.

7. I doubt whether there is evidence to make a charge for theft stick - though I suppose there might be in the event of a confession.

8. I do not know enough about the law to know whether civil proceedings for breach of confidence is an acceptable course; but I think that that is what a private employer would envisage.

9. The third course - disciplinary proceedings leading to dismissal - has its attractions: it makes an example of this leaker, without landing the Government in the potential embarrassment of proceedings under the Official Secrets Act. But it depends on there being either a confession or an absolutely cast-iron case against an individual: suspicion is not enough.

D J Wright

ROBERT ARMSTRONG

(drafted by Sir R. Armstrong and signed on his behalf)

6 November 1980

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Copy to N Sheehan.

CONFIDENTIAL

2.

I will leave the matter to Sir Ian.

Prime Minister.

Not easy; but I take the view that it would be wrong to submit officially to a Select Committee documents which we should normally refuse to release to them, just because they have been improperly handed to the Press. Nevertheless, this position will not be easy to defend publicly and if we adopt it, it is bound to be misrepresented in a way that makes us look silly.

MT

Ref. A03421

MR. WHITMORE

Reductions in Defence Expenditure: Leak

The Secretary of State for Defence has been asked to provide the Select Committee on Defence with copies of the six documents, including a letter from the Chief Secretary and a minute by Sir Frank Cooper, which were recently leaked to the Press.

2. The documents in question are all of categories which are excluded from disclosure to Select Committees under the Memorandum of Guidance, as being exchanges of correspondence between Ministers or official advice to Ministers. The Ministry of Defence accordingly advised the Secretary of State, with my agreement, that he should not release the documents to the Select Committee.

3. I understand that the Secretary of State is minded to think that, as they have been leaked to the Press, he ought not to refuse to release them to the Select Committee; he proposes to make them available on a confidential basis, both because the documents are classified and because not all of them have been published in the Press.

4. I have said that I can understand why the Secretary of State for Defence should be reluctant to withhold the documents, but that nonetheless I hope that he will consider further the arguments for doing so. If it becomes established as a precedent that leaked documents have to be made available to Select Committees, it will not be long before attempts are made to engineer leaks in order to get documents released through that channel.

5. The matter is being referred back to the Secretary of State; I have said that I think that he should let the Prime Minister and the Chancellor of the Duchy of Lancaster know what he is proposing to do, giving them time to comment before he does it.

6. One of the documents is, of course, a letter by the Chief Secretary. I understand that Treasury Ministers have been consulted, and would not be greatly concerned if the letter was released to the Select Committee - the gist of it has already of course been leaked.

RA

ROBERT ARMSTRONG

5th November, 1980

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Security.

SECRETARY OF STATE

Dear Mike.

May I add a postscript to the attached letter. I passed to my Security of State your comments on the proposed statement. He entirely agreed, and has used as the ending of his statement a quotation from his much publicised letter to Lord Rothschild - copy attached. I cleared this with Terry Matthews in the City Security's office who was entirely content that it did not prejudice the position.

Yours ever,

David.

Conservative Central Office

3

File 8/4/12

NEWS SERVICE

THE RT HON FRANCIS PYM

Release time: IMMEDIATE/WEDNESDAY, 20th AUGUST, 1980. 615/80

Text of an open letter from The Rt Hon Francis PYM, MC, MP, (Cambridgeshire) Secretary of State for Defence, to Lord THORNEYCROFT, Chairman of the Conservative Party, on Wednesday, 20th AUGUST, 1980.

You will be aware of the recent publicity over the Government's decision announced earlier this month to raise the defence cash limit for 1980-81. I thought that it would be helpful to you and the Party if I set out the facts in some detail, particularly since a misleading impression may have been given by some reports to the effect that there has been some great battle between the mighty mandarins of the Ministry of Defence and of the Treasury over the level of defence spending this year. Such reports misunderstand the way in which we as a Government do our business. The decisions we have taken on defence expenditure reflect the priority which the Government gives to defence, and the importance we attach to the fulfilment of our commitment as a Party to defence. Our decisions equally reflect a realistic assessment of the economic and financial impact of providing more money for defence at the present time.

We have an unshakable commitment to defence. The world we live in is a dangerous one. In opposition and since taking office we have consistently pointed to the growing disparity of military strengths between East and West. The Soviet Union have spent vast sums of money on military expenditure - some 12 to 14% of their total Gross National product in recent years. The Soviet leadership has shown too that they will not hesitate to use their enormous military force when they calculate that this will further their interests. It is that calculation by the Soviet leadership that we and our Allies in the free world must influence. We must persuade them...

Issued by Publicity Department, Conservative Central Office, 32 Smith Square, London SW1 01-222 9000

them and demonstrate to them that no military adventure is worth the risk that involves a threat to our vital interests or those of our Allies. NATO has been just such an influence for the last 30 years and more. It is purely defensive in character and concept and it has ensured the collective security of Alliance members through their pooled defence resources with Britain playing her full part, in line with the growing military strength on the other side of the Iron Curtain.

The defence policy which I set out in my White Paper this year laid the foundations for a long term strengthening of our defences, in accordance with the agreed NATO aim of increasing real defence expenditure over the next 5 years. I have announced some major decisions since then, including Trident and the purchase of a new main battle tank for our Forces in Germany, which will strengthen our ability to resist at the conventional level. We are also continuing with many important programmes involving the re-equipment of our Forces with more modern weapons, the most important of these being the production of the Tornado aircraft, the largest single defence procurement we have ever undertaken.

I want to refer now to this year's defence budget and the Government's recent announcement of an increase in the cash limit and of measures to ensure that spending stays within this revised limit. We have been criticised on the one hand for giving defence more money at a time of financial stringency and on the other hand for applying any brake to defence spending. There have also been Press stories that "defence spending is out of control". I would like to get this last point out of the way first. Far from spending being out of control the fact is that our monitoring and control systems have enabled us to identify trends early in the year and take corrective action. We are managing our programme in a way which is consistent both with the central role of cash limits as a tool of the Government's economic strategy and with the commitment to real increases in defence spending. /When the defence...

When the defence budget and the associated cash limit were s at £10,785M and £10,125M respectively at the beginning of the financial year the Government recognised that they would have to be kept under review in the light of international and economic circumstances. We have since increased the cash limit by just over £50M to meet the full extra cost of the Armed Forces' pay award in line with our firm commitment to maintain their pay at a comparable level with their civilian counterparts and without this being at the expense of other parts of the defence programme. The defence cash limit has also been increased by £164M being transferred from the central civilian pay Vote; and a further £150M has been added in recognition of the special need of defence and the financial pressures we are under. I would like to explain in a little more detail the reasons for this last increase.

Unlike other Government departments the Ministry of Defence by virtue of the nature and range of its functions is in many ways comparable to a large international conglomerate. We buy a vast range of goods and services (£6½ billion) including equipment of the greatest sophistication. About 46,000 new contracts are let each year. We have foreign exchange expenditure of £6-700M exposed to the fluctuation of exchange rates and our repayment business which is subject to its own uncertainties is over £1 billion.

As a business defence is also exposed to movements in the economy at large. It is directly affected by the economic cycle. The large purchases of goods and services means that defence operates inside the economy and has to live with its changing conditions. Industrial recession and high inflation present acute difficulties. Defence suppliers are short of civil work and consequently they are accelerating progress on defence contracts and putting in their bills much faster. To give one example; previous experience was that after letting a major works contract there would be a period of a few weeks before activity on site commenced. Now money /and...

and materials move in almost before the ink is dry. In the light of this sort of experience it is obvious that we would overspend unless corrective action was taken. Equally worrying is that prices of defence goods and services have been rising much faster than the provision for inflation in the cash limit.

The measures I have taken to offset faster deliveries and higher prices on the programme include the deferment of works projects, reduction in the provision for stores and fuel and the deferment of some orders in the equipment programme. Also as part of our drive to reduce civil service numbers we have shed, in the first four months of this financial year, 4,300 civilian jobs. The search for economies in administration continues all the time of course.

I have also instituted a moratorium, initially for a three month period, on new defence contracts, save for a few essential exceptions. Expenditure will of course continue to be kept under constant review and further measures will be taken if necessary to remain within cash limits.

The raising of the limit allows for a further real increase in the defence programme this year. Its precise size and relationship to the NATO aim of real growth in the region of 3% will depend on the trend of prices during the remainder of the year. I have accepted a slowing down of the programme this year, and a reduction in the number of activities by the Forces because I recognise the great financial difficulties involved in the Government's raising even more cash in present circumstances. A country's defences can be strong only if the country itself is strong and the essential weakness of the United Kingdom is an economic one. The Government is determined to get the economy right and, in that wider interest, I accept that there must be some restriction in the immediate future on the rate of increase of defence spending. Good housekeeping measures such as these now will enable us to meet better our stated objective of /annual...

annual 3% growth in defence spending in real terms over the next five years.

But meantime the threat against which we mount our defences shows no sign of reducing - indeed it is increasing. We are determined to get the economy right. No-one doubts the crucial importance of that. But we have also and at the same time to increase our defences to protect ourselves against the growing threat. 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. And in this respect our commitment to the NATO target of growth in the region of 3% remains unaltered. Our acceptance of that target even in a time of great financial difficulty is justified by our conviction that the world we live in is a very dangerous one indeed.

END

CONFIDENTIAL

Security RP

10 DOWNING STREET

From the Principal Private Secretary 27 October 1980

Dear Russell,

LEAK OF MOD DOCUMENTS ON PUBLIC EXPENDITURE

When the Prime Minister saw the Paymaster General earlier this morning she said that she would let him have copies of the six documents which were leaked from the MOD to the Press Association. These are attached.

At a subsequent meeting the Prime Minister also told the Chief Whip that he ought to see the documents, and I am therefore sending a copy of this letter and of its attachments to Murdo Maclean.

Yours ever,

Clive Whitmore.

R.E.S. Prescott, Esq.,
Paymaster General's Office.

CONFIDENTIAL

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RP

10 DOWNING STREET

From the Principal Private Secretary

27 October 1980

Dear David,

LEAK OF DOCUMENTS ON PUBLIC EXPENDITURE

I have shown the Prime Minister your two letters of 24 October 1980 about the leak of six documents dealing with public expenditure to the Press Association. You should know that after seeing the documents themselves the Prime Minister commented that this was a much more serious leak than she had originally thought.

I also reported to the Prime Minister over the weekend your Secretary of State's telephone conversation with me on Friday evening. I told her that Mr. Pym would have liked to speak to her himself, if she had not been away in her constituency. I also reinforced what you said in your letter of 24 October about your Secretary of State's distress and anger that this leak should have occurred. I told her that he was pursuing the investigation into the leak as vigorously as possible.

Yours ever,

Oliver Wright.

D.B. Omand, Esq.,
Ministry of Defence.

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MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 2193 (Direct Dialling)
01-218 9000 (Switchboard)

PERMANENT UNDER-SECRETARY OF STATE
SIR FRANK COOPER GCB CMG

PUS/80/1016
54/2

fML
24X.

Sir Ian Bancroft GCB
Civil Service Department
Whitehall
LONDON SW1

24 October 1980

Dear Ian.

PRESS ASSOCIATION LEAK ON 23 OCTOBER 1980

I spoke to you and Robert Armstrong about this earlier this morning and told you that we should start by seeking to recover the Secret documents which the Press Association appeared to have in their hands. I said that we proposed to start by sending someone round; following that up if necessary by a letter; and that if anything further was necessary this would clearly be a matter for Ministers and Law Officers.

2. In fact the papers were in my office about an hour later after one of our people had been round to the Press Association who, of course, said that they were photocopies and that they had no Ministry of Defence property.

3. This is clearly a major and deliberate leak. The investigation has already started and I have arranged with Robert Armstrong that he will make Dennis Payne available to lead it and we will put on to it with him, David Hopkins, the Head of our Headquarters Security Division. Naturally, we will make available any further resources that may be needed. Equally, they will of course keep in close touch with the legal authorities.

4. As far as can be seen, no Department other than the Ministry of Defence is involved.

5. We have been in close touch with my Secretary of State who is in Belgium and his office will be sending a report to No 10 later in the day.

6. Copies of this letter to to Clive Whitmore, Robert Armstrong and Bill Beckett.

Yours ever
Frank Cooper

FRANK COOPER

CONFIDENTIAL

Copy to Mr Ingham.

2.

Prime Minister

I told you this morning that the MoD would be letting us have this report of the action they were taking following yesterday's leak.

24 x.

CONFIDENTIAL

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~930 7022~~ 218 2111/3

SECRETARY OF STATE

MO 22/5

24th October 1980

Dear Clive,

LEAK OF DOCUMENTS ON PUBLIC EXPENDITURE

We have been in close touch with the Defence Secretary, who is in Belgium for discussions with SACEUR, about the Press Association leak. My Secretary of State has asked that the Prime Minister be told of his very great distress at what has occurred. He has asked me to say that he and the Chiefs of Staff are and have always been in complete accord about the need for the utmost confidentiality in all discussions of matters of Government policy. Indeed he had expressed only yesterday to the Chiefs of Staff the need for extreme confidentiality over the current exchanges about public expenditure. Since coming into office my Secretary of State has had many hard and frank exchanges with his advisers about very many aspects of defence policy, and the basis of close trust upon which these discussions have been based had never until now been breached. My Secretary of State is all the more shocked by what has now happened and is determined that the fullest inquiry should be conducted to discover who was responsible.

attached

You will have seen from Sir Frank Cooper's letter this afternoon to Sir Ian Bancroft that the Defence Secretary has asked him to set in hand the procedures necessary for a full leak inquiry, to be led by a suitably senior and experienced security official.

You will also wish to know that after consulting the Treasury Solicitor the MOD Deputy Chief of Public

C A Whitmore Esq

CONFIDENTIAL

Relations was instructed to call on the Press Association. They handed over photo copies of the documents they had seen and I attach for your information a report on this. We have put out a short press release, copy also attached, confirming that the Press Association have handed over papers and that a full security investigation has been ordered.

My Secretary of State will, of course, report to the Prime Minister as soon as the results of the security inquiry are known.

Yours ever,

(D B OMAND)

MOD PRESS RELEASE

The Press Association have handed over to the Ministry of Defence papers relating to recent press stories which they have put out. These papers are being examined in the Ministry of Defence.

The Secretary of State for Defence has ordered a full investigation into the circumstances which led to these press reports. The investigation is conducted by a senior security team, the security authorities are already at work and a report will be made direct to the Secretary of State.

Issued
MOD Press Office
14.00, 24 October 1980

Loose Minute

PS/PUS

NOTE OF VISIT TO PRESS ASSOCIATION BY MR. IAN McDONALD (DCPR) ON FRIDAY 24 OCTOBER 1980

1. On the morning of Friday 24 October I was requested by PUS to go to the Press Association buildings in Fleet Street and request from PA staff there the MOD papers which in their tape the previous day they had said were in their possession. I was advised that the purpose of my visit was to make a simple request for the return of MOD material and that I was in no way to enter into legal arguments or to make any kind of threat however indirect. I was also advised that if they did hand over the papers I could sign a receipt for them; but that if they asked whether no further action would be taken if they handed over the papers I was to say no more than the return of the papers would presumably be a factor in the consideration of any possible further action.

2. I arrived at the Press Association buildings at about 11.0 am and on telephoning from the door was met by Bob Hutchinson, the PA Defence Correspondent. He took me up to see Mr. Evans who is in charge of production and operation. I said to Mr. Evans that I had come to request the return of MOD property which I understood was in their possession. He said he would have to consult the Editor-in-Chief Mr. Chipp.

3. After waiting about 15 minutes I was shown up to Mr. Chipp's office. He seemed affable and friendly and offered me a seat. I immediately made my request for the return of MOD property. He said that he had no MOD property in his possession but that he did have copies of MOD papers. The MOD papers themselves, however, were no longer in the possession of PA. He said that if I wanted I could of course have these copies of MOD papers. I accepted this offer and signed a receipt for them. This receipt said no more than that I had taken receipt of 6 copies of documents from the Press Association.

/

4. In handing over the copies of the documents to me Mr. Chipp emphasized that they were 6 in number and that they were all he had. This could be interpreted as either saying that he had no further documents or that he had not taken any more photocopies. I did not press the point.

5. He pointed out that he had himself marked the documents by underlining and sidelining to emphasize what seemed to him the most political items. He then went on to say that bearing in mind past legal cases he could say that he had no knowledge of the documents being especially altered before photocopying. Again I did not take him up on this point since it seemed to me he had carefully prepared this statement and that I would get no further by pressing him on it.

6. The meeting with Mr. Chipp lasted for only 4 minutes. Mr. Hutchinson and Mr. Evans were present throughout.

7. It may be of interest that while waiting to see Mr. Chipp I talked with Bob Hutchinson who was anxious to assure me that the original story was not his. He had been consulted yesterday and had been more directly involved in the follow-up stories today. I said no more to him than that I had of course noticed that the original tape was attributed to Andy Webb the Political Correspondent.

Ian McDonald

24.10.80

I S McDONALD
DCPR

covering SECRET

2. covering 1

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 2111/3 (Direct Dialling)
01-218 9000 (Switchboard)

MO 22/5

24th October 1980

A much more serious leak than I had thought.

Dear Clive,

LEAK OF DOCUMENTS ON PUBLIC EXPENDITURE

I attach, to meet your request of this morning, a copy of the six documents which were in the hands of the Press Association. I think you will find that they speak for themselves.

Prime Minister.

The two documents which have been extensively quoted are at flags A + B.

Mr Tyrie telephoned as soon as he returned from Brussels this evening. He would have wished to speak to you, but I explained you were in your constituency. He is genuinely angry about the leaks which he says should not have come at a sensitive time particularly as far as he is concerned. He is also full of apologies for the trouble his department has caused. He will pursue the leak enquiry as vigorously as possible.

I told him I would let you know what he had said.

AJW 24.X.

Yours ever,

Dave

(D B OMAND)

C A Whitmore Esq

covering SECRET

CONFIDENTIAL

02 SEP 1980

FPM(80) 7th Meeting

FINANCIAL PLANNING AND MANAGEMENT GROUP

Minutes of the twenty-fourth meeting held in
PUS's Office at 3 p.m. on
Wednesday 27 August 1980

PRESENT

Sir Frank Cooper
PUS
(in the chair)

Admiral of the Fleet
Sir Terence Lewin
CDS

Admiral Sir Henry Leach
CNS

General Sir Edwin Bramall
CGS

Air Chief Marshal Sir Michael Beetham
CAS

Mr G H Green
DUS(Pol)(PE)
(representing CDP)

SECRETARIES

Mr D E Young

Air Commodore J B Duxbury

Distribution: Standard Distribution A

CONTENTS

Item 1: DEFENCE EXPENDITURE 1980/81

1. The Group discussed a note by the FPM(A) circulated under cover of a note by the Secretary (FPM(80)9). They also had before them a minute from PUS to CDS (PUS/80/835/20/1) of 26 August.

2. Introducing the discussion, PUS said that there were considerable uncertainties regarding expenditure over the rest of the financial year and in particular the movement in oil prices and exchange rates. He believed however that the forecast of a cash overspend marginally in excess of £200M was as reliable as could be made on present information. There was evidence that about £35M worth of the £250M savings agreed earlier would not be made and he intended to investigate this further with a view to restoring these measures. As regards the moratorium he was still collecting evidence on its impact but felt that £100M was the most that would be saved if the moratorium was not extended beyond three months. On this basis it would not be prudent to count on the moratorium doing more than stopping any further upward movement in volume. His personal judgement was that it would be necessary to extend the moratorium but a decision was not needed at this stage. Turning to paragraph 5D of his minute PUS said that he intended to set in hand further work and discussion with the Treasury on these possibilities for reducing cash flow but it was clear that agreement would not easily be reached if at all. It would again not be prudent to count on savings from this source. He agreed that the possibility put forward at 5C of his minute of trying to hold up the physical progress of current work was highly undesirable and should not be pursued further at this stage.

3. Continuing PUS said that his conclusion therefore was that it was now necessary to take further action on the programme drawing on the proposals set out in the FPM(A) report. In his view a minimum would be to recommend to the Secretary of State measures totalling about £100M.

4. CDS said that in the view of the Chiefs of Staff it was necessary to take further measures and that these should encompass all reasonable steps to restrain spending. In the light of the statements by the Prime Minister and the Secretary of State on the importance attached by the Government to increasing defence capabilities the Chiefs of Staff would not regard it as reasonable to take measures with a long term impact on the Armed Forces or likely to damage NATO cohesion. They could not therefore recommend any proposals to cut back generally on recruitment (although they recognised that it might be necessary in some cases to raise recruiting standards in order to keep within the volume programme) or on planned arms plot moves. They would also not wish to see measures taken that would lead to a loss of confidence and morale within the Forces with consequent effects on retention. If a package of savings of £90-100M were to be put forward the Chiefs of Staff felt it should contain the following elements:

Freight, movements £5M; duty travel £16M (noting that the figure of £21M in the FPM(A) report was in error); food stocks £1M; office supplies £1M; TA man training days £1M and nuclear materials £7M (subject to confirmation that this would not affect the Chevaline programme).

/The balance ...

The balance of savings would on present information have to come from fuel. One possible approach would be to divide the total package between target headings and to give broad guidance on how the savings should be made although it would be open to Target Heading Managers to offer alternative ways of making their savings.

5. In discussion there was general agreement with the package of savings suggested by CDS. Different ways of dividing up the savings to be made on fuel were canvassed. One possibility was to divide savings on fuel so that the overall savings to be made by each target heading were broadly similar to their shares of the earlier £150M and £100M packages. Another approach would be to divide fuel savings according to the amount of uncommitted expenditure on this item by each heading at 1 October as assessed by the FPM(A). A critical factor was a decision whether to cut war reserve holdings of fuel and it was noted that the Navy felt that in their case priority should be given to maintaining war reserves at NATO minimum levels rather than to keeping to planned levels of activity. The Air Force Department had assessed that fuel savings on the scale postulated would pose particular problems for the RAF and would prefer the maximum flexibility for achieving the financial savings to be delegated to Service Boards. It was also noted that further consideration needed to be given to the ways in which activity levels would be reduced. For example to withdraw from STANAVFORLANT would not be a measure to be proposed under a one-third cut in activity. It was agreed therefore that further urgent work needed to be set in hand to establish with greater precision how a saving of £65M on fuel could best be secured and to assess the operational and other implications

/ This ...

This study would be put in hand by the Chiefs of Staff who would task ACDS(Ops) to conduct it with his single Service counterparts.

6. Summing up the discussion PUS said that the Group agreed that in the light of the current forecast of outturn they should recommend to the Secretary of State that further measures should be taken forthwith to reduce spending on the programme. He would minute the Secretary of State accordingly putting forward proposed savings totalling £90-100M on the basis described by CDS. They agreed that savings on fuel totalling £65M should be offered but that there should be further urgent study of this to include the levels of war reserve holdings. They agreed that a firm directive on the need to reduce duty travel expenditure should be issued on the lines of the draft circulated by Head of DS1 (D/DS1/319/2 of 26 August). They would need to meet again in October to review the position.

7. The Group endorsed PUS's summing up of their discussion.

Item 2: LONG TERM COSTING 1981

8. The Group considered a note by the Secretary covering a draft memorandum by DUS(FB) (FPM(80)8).

9. CNS said that he had asked for the item to be placed on the Agenda because he could not accept the proposed targets for the naval programme which did not in his view fairly reflect the outcome of the review of the defence programme by Ministers.

/ He ...

He had four specific points: first the calculations at Annex C, on a lower level of targets to reflect the "Treasury cut" had been carried out on the basis of including the Trident programme with their basic programme before the cut was attributed whereas he believed that the Trident line, both Navy and PE, should not have been changed given the priority attached to it. This would in no way exempt the Trident programme from rigorous financial or other scrutiny. Secondly, the underlying provision for Sea King replacement was wholly inadequate and arbitrary. Thirdly the DPWP in their report of 30 May had acknowledged that short term problems would be presented for the shipbuilding industry if the Option II proposals were adopted and had said that it would be right to make some transfer of funds in 1981/82 and perhaps 1982/83 from one or both of the other Services. Allowance had not been made for this in the target allocations. Finally, amongst the measures the Navy had put forward to meet the Option II programme were cancellation of the Seabed Operations Vessel and abandonment of a plan for a class of EDATS vessels. These proposals had not been accepted by Ministers and it would be appropriate therefore to allow the naval heading more funds to cover the cost of these items.

10. In a brief discussion it was suggested that, apart from the Trident programme, similar points could be made as regards the other target headings; for example, the underlying provision for Challenger tanks and for ASTs 403 and 409 could also be regarded as inadequate and the other Services had also proposed measures for getting down to working level or for meeting Option II which had not been accepted by Ministers.

11. Summing up, PUS said that the Secretary of State had asked that his Steering Group should have an opportunity to consider the proposed financial allocations and assumptions for the LTC. He would therefore minute the Secretary of State attaching the draft bidding minute and setting out CNS's reservations together with his own comments. He would reflect further on the basis of the calculations in Annex C and circulate proposals to the other members of the Group. The Group recognised the importance of the LTC being submitted on target.

12. The Group endorsed PUS's summing up of their discussion.

NOT TO BE PHOTOCOPIED

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EPSG(80)3

DEFENCE PROGRAMME STEERING GROUP
NOTE OF A MEETING HELD IN THE SECRETARY OF STATE'S OFFICE AT 11 A.M. ON FRIDAY 29TH AUGUST 1980

Present:

S of S (in the chair)
CDS
PUS
CDP
DUS(PB)
ACDS(Pol)
Head of DS1 (Secretary)

ITEM 1: DEFENCE EXPENDITURE 1980/81 - THE MORATORIUM

The Group had before them a minute by PUS (PUS/80/842/20/1 of 28th August 1980). Summing up a brief discussion S of S said that the Group noted that it was too early to make a considered assessment of the impact of the moratorium on operational capabilities and on industry. Pressure for exemptions was building up but cases should be scrutinised with the utmost rigour. Although possibilities of allowing blanket exemptions for certain categories of contract were to be considered by US of S(Army) it was important that defence Ministers remained closely aware of the position on exemptions. The Group would wish to consider the working of the moratorium again at the end of September or in early October when it would be appropriate to decide whether to extend it. The probability given the current forecast of outturn was that extension in one form or another would be necessary.

ITEM 2: DEFENCE EXPENDITURE 1980/81 - FURTHER SAVINGS MEASURES

2. The Group considered a minute by PUS (PUS/80/842/20/1 of 28th August 1980). The Group also had before them CAS's minute to S of S (CAS 90813 of 28th August 1980). Summing up their discussion S of S said that the Group agreed that further measures to reduce spending were necessary. With the exception of fuel savings action should now be put in hand to take the measures set out in the Annex to PUS's minute. On fuel a firm target of £65M savings was agreed. He would wish to invite CDS to arrange for the Chiefs of Staff to consider how these savings should best be made and to report the outcome of their study to him by not later than 12th September. It would be helpful if an interim report could be made on 3rd/4th September. The study should look at war reserves as well as consumption and should take account of his initial view that, on a judgement of the low potential risk of an extended period of tension in the next few months, cuts in this area would be preferable to reducing

/ activity ...

activity in ways which would be damaging to operational capabilities and morale or highly visible to NATO or at home. In the meantime immediate action to cut fuel consumption wherever sensible should be taken; for example by cutting back on VC10 flying. He agreed with the Chiefs of Staff view that it would be wrong because of the consequences for morale etc to interfere on any general scale with planned arms plot moves, although he assumed that the most economical means of transport would be used except where special considerations applied as in movement to and from Northern Ireland. Once the Chiefs of Staff study was complete and he had taken decisions on it he would wish to minute the Chancellor of the Exchequer with copies to other members of OD setting out in some detail the measures that the MOD had taken in order to keep spending within the revised cash limit. He noted that CDS would wish to consider informing NATO of the measures taken and said that he would wish to be consulted on the terms of any such approach. The Group also noted that PUS intended early discussions to be opened with the Treasury and E & AD on various "technical" possibilities for reducing cash flow.

3. CDS raised the question of UK participation in a NATO Southern Flank Exercise (DISPLAY DETERMINATION) due to be held shortly and in two bilateral exercises in Denmark. S of S ruled that UK participation in DISPLAY DETERMINATION should be reduced in scale and that so far as possible a similar approach should be taken on later exercises of a highly visible nature. The bilateral exercises with Denmark should be cancelled. The reason to be given was the financial problems caused by faster progress on the programme and it should be made known that this was one of the first of the further measures that S of S had said might be necessary when announcing the moratorium.

ITEM 3: DEFENCE PROGRAMME

4. The Group considered a minute by PUS (PUS/80/848 of 28th August 1980). In a general discussion of financial prospects over the next few years the Group noted that even on the basis of allocations derived from the latest Public Expenditure White Paper and after the measures agreed by OD for adjusting the programme pressures remained very tight and further major changes might have to be made, particularly if the experience of faster progress this year led to a significant scaling down of block adjustments in the forward years. On top of this there would be heavy pressure when the Cabinet resumed its discussion of public expenditure in October for lower allocations to defence and there was every prospect that the Treasury would again seek to impose unrealistically low cash limits for 1981/82. In the context of possible changes to the programme S of S said that he could not rule out the option of slower progress towards plans for improved manning levels in the Armed Forces over the next few years, although he took note of CDS's view that if financial prospects worsened it would be preferable to review defence commitments.

/ 5. ...

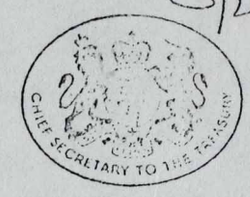
5. In discussion of the "bidding minute" for the LTC, CDS referred to the reservations by CNS as set out in paragraph 2b of PUS's minute and suggested that it would be reasonable to compensate the Navy target by adjustment from the other headings for the cost of retaining the Seabed Operations Vessel in the programme. S of S said that he did not agree to this. When he had decided that the SOV had to continue it had been implicit in his decision that alternative adjustments elsewhere in the naval programme would have to be made. The bidding minute should therefore now be issued in the form attached to PUS's minute.

Circulation:

Those present:
Minister of State
US of S(RN)
US of S(Army)
US of S(RAF)
CNS
CGS
CAS
VCDS(P&L)
CSA
2nd PUS
DUS(N)
DUS(Army)
DUS(Air)
DUS(P)
DUS(CM)
DUS(Pol)(PE)
AUS(P&B)
AUS(NS)
AUS(GS)
AUS(AS)
AUS(GF)
Head of GF4
SECCOS

A

8/2/2



Treasury Chambers, Parliament Street, SW1P 3AG

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

19 September 1980

Dear Secretary of State,

PUBLIC EXPENDITURE SURVEY: DEFENCE

As the Chancellor explained in Cabinet yesterday, and developed in his subsequent minute to the Prime Minister, there is a very real possibility that when we come to consider Public Expenditure in October, it will be necessary to secure cuts substantially beyond those which I proposed in July in my paper C(80)40.

It is too early to say precisely what scale of cuts will be necessary. But if we are to take sensible decisions then we must examine carefully now what the possibilities may be.

From Defence I originally asked for savings of around £140 million a year in each of the years 1981-82 to 1983-84. Your reactions were set out in your minute of 9 July to the Prime Minister. My proposal was intended to permit 3% annual growth on the expected outturn for 1979-80. (The outturn was, however, in the event £20 million higher than expected, and the same formula would now save only £120 million a year.) 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. 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. Effectively, we would be permitting the volume of Defence expenditure to rise again in 1981-82 by the amount envisaged for this year in our August cash limit decision, and reverting to a straight 3% volume progression in the later years of the Survey period.

Clearly this would mean that we would not meet the 3% target in 1981-82. But if we made for further cuts generally it would be widely understood that in a period of acute economic difficulty,

some retrenchment is inevitable and indeed salutary: a strong defence requires a sound economy. 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.

We can discuss this when we meet on 29 September. That discussion will of course be exploratory. Apart from any other considerations we both need to have in mind that what will determine the actual level of spending will be the cash limit. The cash limit factors will not be settled until somewhat later. But I thought it right to let you know in advance the scale of the savings which I believe are required. In the new situation which the Chancellor has described, I hope that you will give careful consideration to what would be involved in accepting reductions of some £400 million in 1980 Survey prices on the Cmnd 7841 revalued figures for the Survey years.

Yours sincerely

T. Matthews

p.p. JOHN BIFFEN

[Approved by the Chief Secretary
and signed in his absence]

CONFIDENTIAL

Reference D/DS1/317/1

APS/S of S

Copy to:
PSO/CDS
PS/PUS
DUS(P)
DUS(FB)
AUS(P&B)
D of DP(A)

PUBLIC EXPENDITURE 1981/82 - 1983/84

As discussed I attach a graph which S of S might find useful as additional background for his meeting with Mr Biffen and subsequent Cabinet discussions. To explain the basis of the lines:

Line A. 'Inherited Plans' takes the previous government's plans, as published in Cmnd 7439, for 1979/80 and 1980/81 and projects them at 3%.

Actual Expenditure for 1979/80 and this year reflects the latest forecast of outturn.

Line B is in essence the present plans as published in Cmnd 7841 and the basis of targets for LTC 81.

Line C is the proposal the Chief Secretary put to Cabinet in July of 3% over the revised outturn for 1979/80.

Line D has no status but might at some stage emerge as a 'compromise'. It is based on an assumed outturn of 1½% growth this year and then 3%.

Line E is the Chief Secretary's latest proposal in his letter of 19th September.

All calculations of 'LTC loss' are based on the ten year period 1981/82 - 1990/91 and on the assumption of 3% growth from 1982/83 to 1985/86 and 1% growth thereafter.

24th September 1980

D E YOUNG
Head of DS1

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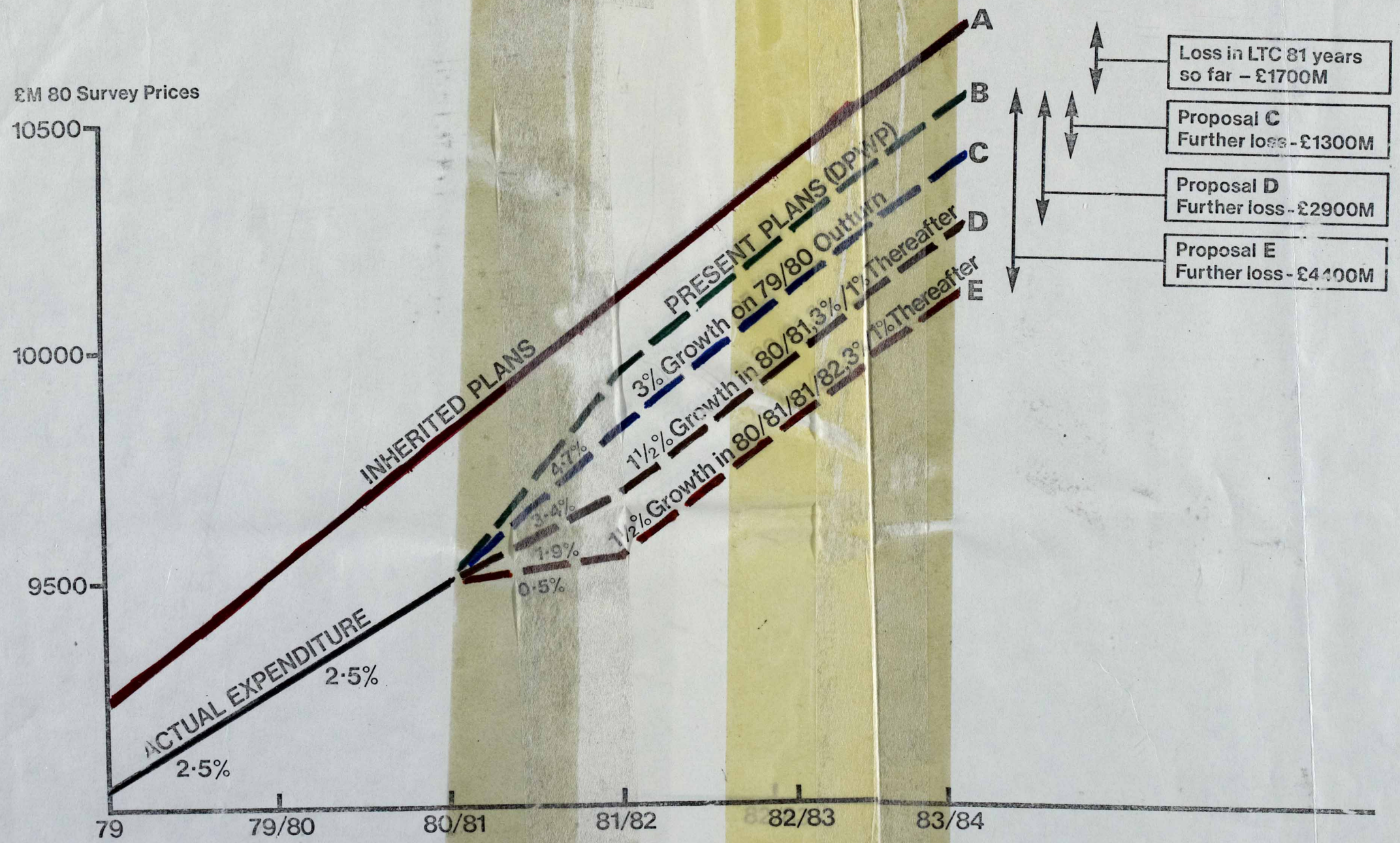
Defence Budget Projections



MINISTRY OF DEFENCE

NOTICE TO DIRECTORS AND HEADS OF DIVISIONS

25 September 1980

Serial 42/80 MORATORIUM ON EXPENDITURE COMMITMENTS 1980/81

1. Extensive savings must be achieved in expenditure in 1980/81 in order to comply with cash limits approved for the year. Amongst savings measures already announced is a moratorium on new commitments, which came into effect on 8 August 1980. The original terms of the moratorium are repeated at ANNEX A.

2. The moratorium must be applied firmly and requests for exemption kept to a minimum. But it is not the intention to halt, disrupt or breach existing contracts or other established obligations, or to halt essential activity where continuing services or recurring work are undertaken on the basis of individual approvals under annual or enabling contracts. There are also classes of case (in addition to those cited in paras 1 and 2 of ANNEX A) where a general exemption is appropriate.

3. Guidance on the interpretation of the moratorium and on class exemptions is set out at ANNEX B. These exemptions are to be applied in compliance with any supplementary departmental instructions, and in a manner which minimises expenditure and maximises Voteable receipts in 1980/81.

4. The review of uncommitted maintenance expenditure on buildings referred to in para 3 of ANNEX A has been completed and guidance has been issued separately to those concerned.

(D/GF4/6/67/1)
(tel 4214AD)

Frank Cooper.

ANNEX A

MORATORIUM ON UNCOMMITTED DEFENCE EXPENDITURE

1. There will be a moratorium on uncommitted expenditure on extramural research and development, on purchases of capital equipment and goods (whether to replace existing equipment or not), lands, buildings and new construction and on any other new services. The moratorium will apply also to purchases of spares, stocks and reserves (with the exception of food and fuel) and to contract repairs. Separate instructions will be issued on new commitments on purchases of fuel. Expenditure should be regarded as uncommitted wherever a contract is not yet signed or an order placed, irrespective of the state of the negotiation.

2. The strategic nuclear deterrent (both the Polaris and Trident programmes) will be excluded from the moratorium.

3. A review of uncommitted maintenance expenditure on buildings will be conducted urgently by DUS(PL), in consultation with the PSA, with the object of reducing expenditure to the minimum required for vital operations and safety. The normal processes of departmental consultation will apply.

4. The moratorium will last until further notice, but will initially be for three months. There must be no presumption that delayed orders may be placed immediately the moratorium ends. The procedure for raising, adjusting or extending the moratorium will be established in due course.

During the moratorium the processes leading up to contracts or orders may proceed unhindered (eg appropriate committee clearance and Treasury approval should be obtained) but formal tenders should not be invited.

6. Target heading managers are asked to supervise the application of the moratorium in their areas of responsibility and to report any instances where, in their view, an exception should be authorized because observance of the moratorium would result in disproportionate financial or other penalty. The fact that a proposed contract would not generate expenditure until next year will not in itself be grounds for exceptional treatment. The basic approach is for a clear cut moratorium with minimum exceptions. Requests for exceptional authorization should be made in the first instance to the Parliamentary Under Secretary of State concerned, and to the Minister of State for the Procurement Executive and miscellaneous target headings with copies to the Secretary of State who would wish to be informed of exceptions allowed and to consider cases of difficulty. Copies should also go to PUS and CDS, to CDP and to the appropriate Chief or Chiefs of Staff, and to DUS(FB).

7. Target heading managers may, if they wish, allow delegated authority to make local purchases at a level not exceeding 10 per cent of what would otherwise have been incurred through the period of the moratorium. Demands on running contracts and demand orders, other than those for food and fuel, which are exempted from the moratorium, may also be permitted to proceed at a level not exceeding 10 per cent of what would otherwise have been incurred through the period of the moratorium. Demands on running contracts and demand orders, other than those for food and fuel, which are exempted from the moratorium, may also be permitted to proceed at a level not exceeding 10 per cent of what would otherwise have been incurred through the period of the moratorium.

8. All other expenditure is to be constrained to the minimum.

ANNEX B

MORATORIUM – INTERPRETATION AND EXEMPTIONS

NATO infrastructure

1. The moratorium does apply to projects whose inclusion in infrastructure 'slices' has been agreed by NATO. In some cases, however, the delay in incurring expenditure resulting from the moratorium may be so extensive as to cause the project to 'lose its place'. Where UKDEL NATO confirms that the prospective delay would lead to loss of infrastructure funding, further commitments and expenditure may be incurred.

NATO management tasks

2. Where there is a binding obligation to carry out duties or incur expenditure on behalf of NATO, this should be honoured even though further expenditure is necessary for that purpose. Additional expenditure in 1980/81 should be kept to minimum consistent with the avoidance of a clear breach of obligations. Prompt recovery of costs must be secured: where this proves impractical because of delay in receipt of payments from NATO funds, it may be necessary to consider whether continued MOD participation can be justified.

International collaboration

3. Generally it is the intention that existing collaborative commitments and projects should continue. Inescapable international obligations set out in MOUs or other formal documents should be honoured subject only to possible exceptions where international partners are in clear breach of their obligations (eg to provide monies or services promptly); the latter cases should be referred to Ministers. In judging whether an obligation is inescapable, consideration should be given to the acceptability of deferring further commitments involving expenditure in 1980/81; cases where there is doubt should be referred to Ministers. Expenditure covered by Voteable receipts is exempt. Any exemption given for international obligations will not normally extend to associated work undertaken and financed on a national basis.

Other Government departments

4. Generally, supplies and services to other Government departments should be undertaken only where there is an unambiguous agreement to meet MOD costs as they arise. As other Governments departments are subject to their own cash limits, such agreements should be endorsed by the Treasury.

Health, hygiene and safety

5. Continuing expenditure may be incurred to safeguard existing standards of health, hygiene and safety in accordance with established practices and methods. The moratorium applies to all measures to improve standards or implement new requirements to which compliance is not mandatory. The moratorium also applies to stock replenishment except where this would directly be detrimental to existing standards or mandatory requirements.

Enabling, running and like contracts, LPOs, etc

6. Where running or other contracts specify a minimum level of work, supply or payment, these obligations should continue to be honoured. Other existing contracts should be utilized only at the minimum level of funding necessary to meeting continuing needs which cannot be deferred or to safeguard the existence of essential facilities.

7. The 10 per cent limit on local purchases and demands orders for equipment under running etc contracts (including repairs, etc, for which a minimum level of activity is not specified in the contract) may be applied on an aggregated basis, ie more important commitments may exceed 10 per cent providing others are restricted to less than 10 per cent in compensation.

8. Contracts operated on the basis of limitations of liability may be continued by increasing limitations at the lowest level consistent with safeguarding essential facilities and meeting continuing needs which cannot be deferred.

9. Enabling and running contracts covering established, essential, recurring requirements may be renewed on expiry. But successor contracts should exclude as far as practical any obligations to fund a particular level of activity or type of work unless and until specifically requested. Such requests should conform with the 10 per cent rule and other criteria above.

Minor commitments in support of major contracts

10. Where a clear breach of an existing major contract would be occasioned by MOD failure to supply goods or services, additional minor commitments not exceeding £100K in total in relation to any one major contract may be incurred if this is the only way of avoiding a breach of contract.

Diseconomy

11. Further commitments may be made where they provide the only means of preventing a net increase in Vote expenditure in the current financial year arising from the consequential costs of existing commitments. This exemption does not apply to measures which might produce a saving in later years nor to new contracts which will be more expensive if placed after the moratorium.

Sales – existing agreements

12. Continuing expenditure or additional commitments required to avoid a clear breach of the terms of a formal sales agreement may be authorized without reference to Ministers providing that the breach would entail a clearly identifiable financial penalty.

Future sales

13. Expenditure in anticipation of the completion of contract negotiations or on future sales is subject to the moratorium:

a. except where fully covered by prefunding from customers on terms permitting booking of such receipts to Vote in the same financial year as the Vote expenditure;

and

b. in the case of prospective customers owing money to the MOD, to full or partial settlement of the debt being secured during 1980/81.

CONFIDENTIAL

B

PUS/80/936
20/1

Secretary of State

8/4/12

Copy to:
Minister of State
US of S(RN)
US of S(Army)
US of S(RAF)
CDS
CNS
CGS
CAS
CDP
CSA
VCDS(P&L)
DUS(FB)
SECCOS
Head of DS 1

DEFENCE EXPENDITURE 1980/81

The Chiefs of Staff, CDP and I reviewed the current situation this morning in the light of the latest forecast of out-turn based on spending to the end of August.

2. The forecast is of a cash overspend of about £135M against the increased cash limit. This takes account of the measures already taken and assumes that what has been saved by the moratorium will not be put at risk later in the year. The volume of the programme is broadly in line with provision so the steps that were taken to adjust it were necessary.

3. The amount of uncommitted expenditure is very roughly about £270M, of which £165M is for fuel with the rest accounted for by duty travel (£40M), freight (£15M), Service recruitment (£15M), civilian recruitment (up to £10M), equipment and refits (£20M).

4. What are the reasons? There are basically four of them:

a. the continuing high rate of billing from industry;

b. faster progress in industry because of lack of other work;

c. the need to carry and pay higher individual overheads;

d. a much higher rate of inflation than forecast.

5. We are all agreed that the moratorium needs to be reviewed and replaced, albeit with a very stringent regime - it is restraint which has produced significant savings but is too clumsy though I think it will de facto continue in the Vote 1 and Vote 4 fields. We need a better apparatus in the Vote 2 field with first priority being given to items which affect operational capability. This review is now in hand.

6. As you know, CDP is meeting representatives of our suppliers' organisations on 14 October which will provide the opportunity to discuss the moratorium, to discuss the possibilities of delaying bulk payments, and any other relevant matters. In addition, we are seeking to get forecasts from our main contractors of how much money they expect to bill us for during the rest of the financial year.

7. The Chiefs of Staff will up-date the fuel position and we shall have a look at the rest of the now small uncommitted areas.

8. The aim will be to give you as full a view of the position as possible about the third week of this month. I am bound to tell you that my present judgement is that I see no possibility of avoiding a cash overspend unless we can make a real inroad into the bill paying situation (which given the difficulties in industry will not be easy) and/or we get some easement in the cash limit.

9. The Chiefs of Staff are naturally seriously concerned about the effect on their operational capabilities and also stress that the international situation has deteriorated dangerously in the last few weeks. There is also evidence of more NATO and international awareness of our reductions in activity levels.

10. I think I must also register my concern about next year. It seems unlikely that the industrial/economic factors I mentioned in the earlier part of this minute (para 4) will do anything other than to continue to bring enormous pressures on us. Our nature is that of an industry but we cannot adjust our prices. We must pay great attention to next year and avoid making an exceptionally difficult situation worse. On any hypothesis a number of industrial eggs are going to have to be broken and the prospects for new capital investment in 1981/82 are negligible.

FRANK COOPER
2 October 1980

cc Mr Pattison

MAP

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~XXXXXX~~ 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,

David Omand

(D B OMAND)

M A Pattison Esq

Chief - to see
MS

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CONCERN OVEK 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, TTHE 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 WLL 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.

1730

22611 MODPR G
22330 PALDNB G
PA SPECIAL
FOR MOD

PA SNAPFULL
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 STO 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 DEFENDE 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

SNAPFULL
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.
MF 1717 23/10 PC

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 PROGRAME 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

PA
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.
MF 1726 23/10 PC

AP/ULL
/ENCE
DEFENCE CORRESPONDENT ROBERT HUTCHINSON WRITES:

/EFORE 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.

END 1733 23/10 GWJ NNN A 8 DEFENCE

22611 MODPR G
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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.