

Prime Minister. **5**



This gives Mr Pye virtually the original option 5.
Are you ready to have the meeting the Chancellor proposes at XI
John?

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Attil
30x.

Yes and

PRIME MINISTER

DEFENCE EXPENDITURE 1981-82 to 1983-84

See Pub. Expⁿ
p. 5, Econ. Pol.

As you know the Chief Secretary and I have been considering what can be done, without re-opening now the Cabinet's conclusion of 18th October, to meet the Defence Secretary's difficulties on the figures which Cabinet then endorsed for defence expenditure in the years 1981-82 to 1983-84.

...

2. The attached note sets out a proposal which the Defence Secretary has indicated he would accept with reluctance. The Chief Secretary and I would also be prepared to go along with it in substance, but before we reach a conclusion in this sense, I must emphasise to you my anxieties about it, not only as to the position of Treasury Ministers in regard to expenditure control but as to the reactions of the Cabinet generally.

3. This arrangement is designed to avoid having to re-open the Cabinet decision now. But it will have to become known to Cabinet at some point. It will then be evident that the Prime Minister, Treasury Ministers and the Defence Secretary have arranged, behind the back of Cabinet as a whole, some sort of deal which goes against the majority opinion in Cabinet as expressed on 18th October and which gives preferential treatment to the Defence Secretary compared with that of other spending Ministers whose plans were determined multilaterally, in some cases contrary to the preferences of the Minister concerned.

/4. The problem



4. The problem is highlighted by paragraph 5 of the note and the suggested sentence for the White Paper. This sentence is true, and the Defence Secretary feels that he must have it in the White Paper in order to avoid the presentational problems which throughout have exercised him if the White Paper comes out with the figures as they now stand. But the inclusion of the sentence will bring the matter out at Cabinet when they are asked to clear the text of the White Paper, which on present plans would be on 20th December. It will invite attention then to the whole question of the deterrent, which you may not then be ready to discuss in full Cabinet. The reference will also excite public interest in the point when the White Paper is published, ^{and} possibly provoke criticism of the defence figures on the ground that they omit the most important element.

5. Even if this sentence were not in the White Paper, and the Defence Secretary insists it should be, the problem would remain when the figures were published, since the Defence Secretary would want himself to say what the sentence says, if only to justify the programme to his NATO colleagues and to the defence interests in the Party. And the arrangement will need to become known within the Ministry of Defence.

X | 6. I urge that you hold a meeting with the Defence Secretary and John Biffen and myself to go over this ground. If we are to go down this road, we must do so in full understanding of all the implications which affect us all.

7. I am sending a copy of this minute to the Defence Secretary and to John Biffen.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

(G.H.)
30th October, 1979

DEFENCE EXPENDITURE 1981-82, 1982-83, 1983-84

1. The Proposed Solution

It is agreed that :

a) The defence figures remain as in the Chief Secretary's paper which Cabinet endorsed) C(79)35 for this year's public expenditure White Paper to be published in January.

b) If the Government decides to replace the strategic nuclear deterrent - no firm or formal decision has yet been taken - the extra costs arising in the three years 1981-82 to 1983-84 will be met from the Contingency Reserve, increasing the C(79)35 figures for the defence programme, up to amounts not exceeding what will bring the annual increases of defence expenditure in those years up to 3% each year in volume terms.

c) These additions are conditional on the absorption, within the revised defence figures, of

- i) the running costs of an expanded Hydrographic Fleet (whether arising from chartering or building ships) to meet urgent civil hydrographic survey requirements (estimated at £5m p.a.);
- ii) an agreed share of the capital costs of 4 new inshore fishery protection vessels (some £17m over 5 years);

and on the MOD continuing actively to pursue measures to ensure maximum cost effectiveness and efficiency in the defence programme and the elimination of waste.

2. In the next year's Public Expenditure Survey, or if plans for replacing the nuclear deterrent are still uncertain then, in some future year, the required provision (within the 3% annual volume growth limit) will be added to the defence programme figures which, other things being equal, would thus be increased. (Formally, the Contingency Reserve would be written down by equivalent reductions; but the amount of the Reserve is liable to adjustment anyway each year, whereas the defence programme normally is not).

Consequential announcements

3. The public expenditure White Paper will probably be published in mid-January. A formal decision concerning the replacement of the nuclear deterrent may be taken shortly before that. It may or may not be announced immediately.

4. In Cabinet

a) As no formal decision has yet been taken on whether, when and in what form to replace the nuclear deterrent, the defence figures will not be changed until that decision is taken; so Cabinet need not and would not be informed about the proposal now.

b) When the decision to replace the deterrent is taken, the Prime Minister will need to consult or inform Cabinet about that decision and its public expenditure implications, saying in substance: "The bulk of the expenditure will fall after the present Survey period. But some will fall within it. It was not practicable to take this into account during the recent Survey and no specific provision was made in the agreed programme. So far as is practicable it ought to be absorbed within the defence provision already agreed, but, in view of the overriding national importance of the work, the Chancellor and the Chief Secretary have agreed that additional expenditure (at 1979 Survey prices) of up to £50m in 1981-82, £100m in 1982-83 and £160m in 1983-84 should constitute a call on the Contingency Reserve for the years in question".

c) Whether or not the replacement decision has been brought to Cabinet by then, if the words suggested in para 5 below are included in the White Paper, they would be seen by Cabinet when the draft White Paper is taken, probably on 20 December. If this prompts questioning, the reply would be: "No formal decision has yet been made, so no specific provision has in fact been made in the figures. If replacement is decided upon, there will need to be a claim on the Contingency Reserve, which the Chancellor and the Chief Secretary accept".

In the White Paper

5. It is unlikely that the replacement decision will be taken and announced in time for reference to it in the White Paper. The following sentence would be included in the White Paper: "These figures do not include specific provision within this Survey period for the replacement of Polaris, on which no decision has yet been taken".

In Parliament

6. A reference to the use of the Contingency Reserve would be included in a Parliamentary announcement of the replacement decision, if and when that announcement is made.

In NATO

7. At the NATO meeting in December, the Defence Secretary would say "We have met the NATO target for an increase in defence expenditure of 3% in real terms in 1980-81. I can reaffirm our firm intention to meet the target in later years".

8. If the replacement decision has not been announced by the time that the White Paper is published the Defence Secretary would make use of the sentence in paragraph 5 in dealing with any NATO questions.

30 OCTOBER 1979