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cc Defence Budget Pt 4.



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From the Principal Private Secretary

18 November 1980

Dear Brian,

Public Expenditure: Defence Budget

The Prime Minister and your Secretary of State met this evening to discuss the future level of the defence budget in the context of the review of public expenditure which the Cabinet will resume at its meeting tomorrow.

They agreed that the defence budget for 1981/82 should be reduced by £200 million at late 1979 prices, subject to the following conditions:

- (i) In accordance with agreed cash limits policy and with the treatment of overspends on the defence cash limits in 1978/79 and 1979/80, any overspend on the 1980/81 defence limit would require a compensating deduction from the limit for 1981/82.
- (ii) If the decisions taken by the Government in the light of the recommendations of the Armed Forces Pay Review Body entail an increase in the Armed Forces' pay bill beyond the 6 per cent already provided in the defence cash limit, the cash limits will be increased by the full amount involved.
- (iii) The prices factor for the cash limit on defence budget expenditure other than pay will be 11 per cent, but in recognition of the special considerations affecting price increases in this programme the limit will be subject to review in the light of changing circumstances.

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- (iv) The Government adheres to its commitment to NATO to increase defence spending in real terms by 3 per cent a year, economic circumstances permitting, and trusts that economic circumstances will permit the United Kingdom to resume this rate of growth in 1982/83 and later years.

The Prime Minister and Mr. Pym agreed that these decisions should be reported to Cabinet tomorrow morning. I have already conveyed them to the Chancellor of the Exchequer.

The Defence Secretary told the Prime Minister that he would now need to consider the implications for the defence programme of the reduction of £200 million in next year's defence budget. He said that he would probably wish to bring to OD in due course his proposals for adjusting his programme: these might include a recommendation that there should be a review of our defence commitments.

I am sending copies of this letter to John Halliday (Home Office), George Walden (FCO), John Wiggins (HM Treasury), Jim Buckley (Lord President's Office) and David Wright (Cabinet Office).

Yours ever,

John Wiggins.

B. M. Norbury, Esq.,
Ministry of Defence.

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