



MINISTRY OF DEFENCE
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MO 8/2/12

28th October 1980

Dear Nick,

DEFENCE EXPENDITURE

I will try to answer as briefly as I can the points you put to me on the telephone this morning about the Government's record on defence expenditure so far.

During the past three weeks we have been establishing revised calculations on the volume of defence expenditure in 1979-80 following an agreement of the Appropriation Account figures. The trend has been upwards so we can now expect a defence budget real increase of 2.9% rather than the 2.5% that we were assuming up to a month ago. This merely restores the forecast growth percentage given in the Cmnd 7841.

The figure for the defence programme (ie including ROF repayments) does in fact amount to 3% over the corresponding figure for 1978-79. The figure work is attached (Annex A). It is also relevant that the 1979-80 defence expenditure on NATO definition shows 3% real growth. The Prime Minister can say with confidence therefore that we achieved 3% real growth in defence spending in the Government's first year in office. I also attach a line to take on the justification of the change in the figures (Annex B). NATO uses a standardised definition of defence spending (set out in the attached table - Annex C). Basically NATO definition includes the cost of supporting services such as computers, stationery and accommodation but excludes the cost of the Meteorological Office which we fund on the defence budget.

The NATO 3% aim was last reaffirmed in the 1979 Ministerial Guidance approved by NATO Ministers. The relevant paragraph is at Annex D.

N J Sanders Esq



Finally I should emphasise that when NATO talks of real defence spending they mean what we would call the volume of expenditure. There is no doubt about this. Each of the NATO countries has different national accounting systems but the objective is the same - to remove from the money actually spent that element that corresponds to inflation on the goods and services purchased and wages paid. The defence expenditure figures are reported by all the allies to NATO and are scrutinised by the International Staff to ensure that the figures of defence spending on NATO definition do compare like with like.

Yours ever,

David Omand

(D B OMAND)

ANNEX A

	£M at 1980 Survey Prices	
	<u>1978/79</u>	<u>1979/80</u>
Defence Budget	9037.3 (-)	9296.5 (+2.9%)
ROFs	-11.6	-4.2
Defence Programme	9025.7 (-)	9292.3 (+3.0%)

ADDITIONAL SUPPLEMENTARY NOTE

WHY ARE MOD REVISING 1979/80
EXPENDITURE FIGURES IN
OCTOBER 1980?

All expenditure booked to votes in a given year has to be scrutinised and finally authorised by the Comptroller and Auditor General before the Appropriation Account is finalised. The 1979/80 Appropriation Account figures for defence votes were only recently agreed by C&AG; the cash amounts differed marginally from those submitted from departmental accounts and there have been consequential changes in the underlying volume figures.

Excerpt from *Grant 7826*

Defence budget and related expenditure (1)

TABLE 2.3

£ million

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Defence budget	4,547.5	5,432.4	6,329.9	6,918.8	8,557.7	10,784.5
+ Military aid to overseas countries	1.6	1.9	2.4	2.3	13.6	6.9
Supporting services (2)						
+ Accommodation (maintenance and rental)	38.8	37.5	36.5	47.8	41.9	60.1
Stationery and printing(3)	24.6	33.0	29.6	28.7	32.7	—
Home publicity	4.2	3.6	3.8	4.7	8.6	10.7
Civil superannuation	81.1	96.7	116.7	153.9	181.5	208.3
Computers and telecommunications(3)	9.4	7.3	13.1	14.7	14.4	—
Rates	36.4	48.7	49.9	58.7	64.3	77.9
Services by Exchequer and Audit, etc....	3.1	2.9	3.2	3.3	3.7	4.9
Less cost of						
- Meteorological services in Defence budget	-10.8	-22.0	-20.5	-24.0	-28.9	-36.5
Other adjustments	4.7	-2.2	-5.2	-5.2	-4.2	-4.2
Defence expenditure (NATO definition) (4) ...	4,734.6	5,839.8	6,558.4	7,203.7	8,885.3	11,112.6
US military aircraft loan (net) (5)	- 21.7	- 7.8	—	—	—	—
Accounting adjustments	3.7	39.2	15.7	9.1	—	—
Defence expenditure (National income definition)	4,716.6	5,871.2	6,574.1	7,212.8	8,885.3	11,112.6

(1) The figures given in the table are based on Estimates and reflect the price levels of the Estimates for the years in question.

(2) These are the defence portion of services performed by certain Government Departments for Government generally.

(3) These items are included in the Defence budget after 1979-83.

(4) The Defence budget figures have to be adjusted as shown to meet the standard NATO definition of defence expenditure. From 1979-80, the standard NATO definition has been changed slightly to agree with the National Accounts definition.

(5) Drawings under the Military Aircraft (Loans) Act, 1986 for the purchase of US military aircraft.

NATO 3% AIM

X-X

The 3% Aim

X/ In the last Ministerial Guidance covering the force goals period 1979-84, [it was decided to aim at making available resources which would allow for annual increases of defence spending in the region of 3% in real terms, recognizing that, for some individual countries, economic circumstances would affect what could be achieved ~~or~~ current force contributions might justify a higher level of increase.] This undertaking was endorsed by Heads of State and Government at the Washington Summit in May 1978. Initial action taken by governments for the achievement of this aim has on the whole been encouraging. In the light of these various factors, nations, over the period of the next series of force goals (1981-1986) should intensify their efforts to implement fully for the whole planning period the resource guidance of 1977.

DEFENCE EXPENDITURE, ADDITIONAL SUPPLEMENTARIES

NOTES FOR SUPPLEMENTARIES

THE DEFENCE SECRETARY SAID THAT THE GOVERNMENT REMAINED COMMITTED TO A 3% INCREASE THIS YEAR, NEXT YEAR AND THE YEAR AFTER. IS THIS TRUE?

3% was achieved last year.

There will be significant further real growth this year.

As for the future the

Government is committed

to the NATO aim for real increase in the region of 3%.

WILL YOU SAY CATEGORICALLY THAT YOU WILL PLAN FOR 3% NEXT YEAR?

As I have told the House

public expenditure plans are

under review in the usual way.

Announcements will be made

in due course.

WHAT RELATION WOULD 3% NEXT YEAR BEAR TO THE CHIEF SECRETARY'S REQUEST FOR A REDUCTION OF £500M

I have nothing further to add.

When we have taken decisions

we will announce them.