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We haven't dealt with training  
arising from military orders.

(1)

Is that needed?  
or inclusion in MOD? Prime Minister

(6) I imagine you will think a meeting is necessary to resolve the other problems?

Ref. A03729

PRIME MINISTER

(a) This is relevant to the conversation which you had with Lord Carrington in the aircraft on the way to Dublin. Can I confirm that you believe the money for UKMTAS should come from the central contingency reserve (para 8 below)?

The Defence and Overseas Policy Committee (OD) remitted for official study the notion of a "single pocket" for expenditure on foreign policy and defence policy objectives. A group of officials under Cabinet Office chairmanship has undertaken this study, and has also studied proposals for changing the accounting arrangements and increasing the financial provision for the United Kingdom military training assistance scheme (UKMTAS). The reports of the officials, circulated as MISC 42(80) 28, are attached; the conclusions are summarised in an annex to this minute.

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2. The reports have been considered by the Permanent Secretaries of the Departments concerned, with whom the summary has been agreed.
3. Officials are agreed upon the conclusion that amalgamating the defence, aid and diplomatic budgets (the "single pocket") would not make it any easier to reach decisions about the marginal distribution of expenditure between defence, overseas aid and diplomatic activity and would create problems of accountability to Parliament, unless the three programmes were brought under the control of a single Minister - who would then have an intolerably large burden of responsibility.
4. If Ministers accept that conclusion, decisions are required on five issues which, though relatively minor, have eluded attempts to arrive at agreed recommendations by officials. These issues are set out in paragraph 4 of the attached summary.
5. The first issue is that of financial and accounting provision for military evacuation of British communities abroad and the provision of operational military assistance to Third World countries. At present this falls on the Foreign and Commonwealth Office (FCO) Diplomatic Budget, but there is no provision for it in the public expenditure programme: if the FCO cannot, within a relatively small programme, find savings, it has to seek provision from the central contingency reserve. The alternatives are:-



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- (i) to transfer this provision to the Ministry of Defence (MOD), because the defence budget is more likely to be able to accommodate it without the need for recourse to the central reserve;
- (ii) to give the FCO diplomatic budget a small contingency fund in its own programme, to enable it to deal with this kind of emergency; and find the money either by reducing the defence budget or by reducing the aid budget or from the central reserve;
- (iii) to leave things as they are.

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The FCO would prefer either (i) or (ii) (except that the ODA side of the FCO would have reservations about contributing to (ii)); the Treasury and the MOD prefer (iii). There would be much to be said for putting this contingency provision on to the defence budget. That would also accord with the logic of OD's decision on 20th March to work towards a modest enhancement of Britain's capability to intervene outside the NATO area to protect British communities or support friendly governments. I should be inclined to recommend a decision in principle accordingly; but it may be sensible to postpone its implementation by not more than a year, in the hope that the defence budget may by then be less beset than at present by the problem of overspending.

6. The second issue is how to cater for the provision of small quantities of arms to deserving Third World countries. Here I suggest:-

- (i) If Ministers decide in favour of an FCO contingency fund, the fund should cover provision of this kind.
- (ii) If Ministers decide against an FCO contingency fund, but the Foreign and Commonwealth Secretary regards the provision of up to £2½ million a year for supplying arms to Third World countries as a sufficiently high priority, the cost should be met by transfer to the diplomatic budget from the aid budget (which is statutorily precluded from being directly drawn upon for the supply of arms). Both these budgets are under the Foreign and Commonwealth Secretary's control.

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7. The third issue is whether to create a small stockpile of arms for supply to Third World countries. My meeting of Permanent Secretaries agreed that we should not create such a stockpile. Acquiring it and storing it would be additional expense; and even if we had a stockpile we could not be sure of having in it the particular types of material required in any given instance. If we do not have a stockpile, the ability to supply will depend on the Ministry of Defence having available and being able to spare (until they can be replaced) the arms required, if they are not readily available from industry.

8. The fourth issue is whether to maintain the volume of UKMTAS at 1979-80 levels. This would require an extra £4 million in 1981-82 and thereafter. There is a strong case for doing this, and I think we should. If it is to be done, where is the money to come from - the central reserve, the defence budget or the aid budget? Any division can only be arbitrary: one possibility would be to take £2 million from the reserve, £1 million from the defence budget and £1 million from the aid budget.

9. The fifth issue is the accounting arrangements for UKMTAS. My meeting of Permanent Secretaries agreed that there should be no change in these arrangements, and I recommend accordingly.

10. I am sending copies of this note, the summary, and the full reports of MISC 42 to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Secretary of State for Defence. I think that the amounts involved are too small and the issues too technical to take at OD, but I am afraid that you will need to have a meeting with these three colleagues to settle them - unless by any chance you and they are content to accept the solutions I have suggested in this minute.

REA

(Robert Armstrong)

4th December, 1980



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ANNEX

OVERSEAS AND DEFENCE EXPENDITURE

At their meeting on 5th June, OD decided, in the context of Britain's contribution to the task of countering the effects of Soviet power worldwide:

- (i) that expenditure decisions, within the overall limits agreed, should reflect the essential unity of purpose in the Government's defence and foreign policies including aid;
- (ii) that there should be further consideration how to ensure that the agreed resources available for foreign policy objectives (including aid) and defence policy objectives were treated as a "single pocket" from which expenditure could be flexibly directed towards meeting the requirements of national security in the broadest sense;
- (iii) that there should be further consideration how to introduce more realistic interdepartmental accounting between the Ministry of Defence and the Foreign and Commonwealth Office which would leave the basic costs (including a modest increase in those costs) of service personnel participating in the United Kingdom military training assistance scheme (UKMTAS) to be met from the defence budget.

2. On 17th June the Secretary of State for Defence, who had not been present at this OD meeting, sent the Prime Minister a minute reserving his position on the "single pocket" concept and expressing some doubt about the revision of interdepartmental accounting methods.

3. It was subsequently agreed that the investigation into the two subjects at (ii) and (iii) above should be undertaken initially by the interdepartmental group of officials under Cabinet Office lead (MISC 42) which had already been invited, in the Foreign and Commonwealth Secretary's minute of 25th April, to study -

- (a) the scale, nature and financing of UKMTAS, covering both inward training courses in the United Kingdom and outward secondment of British loan service personnel (LSP);
- (b) the implications of a contingency scheme to enable the United Kingdom in an emergency to provide military equipment on subsidised terms.

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4. The MISC 42 group of officials has now submitted its report, in four parts. This is attached (MISC 42(80) 28). Its conclusions may be summarised as follows:-

A. Overseas and Defence Expenditure (paragraph 1(ii) above).

There are difficult problems of resource priorities over the funding of contingencies which arise at the margin of the Defence Budget, Aid Budget and Diplomatic (i. e. FCO non-aid) Budget. Amalgamating the three Budgets would have serious practical disadvantages, in terms of Ministerial answerability to Parliament, and would not eliminate the need to decide which of their normal activities are to suffer in order to ensure that expenditure on a particular contingency is accommodated within the total ceiling. In practice the main problems arise over payment for -

- (i) Evacuation of endangered British communities abroad
- (ii) Operational assistance to friendly independent countries.

At present this expenditure falls on the Diplomatic Budget i. e. on the Foreign and Commonwealth Office (in its narrow, i. e. non-ODA, sense). There is no provision for it in the FCO's public expenditure programme, and that programme is not big enough to accommodate sizeable unforeseen extra requirements. If a contingency arises, the FCO has to seek agreement to provision from the central contingency reserve. It would like to see arrangements which made it possible to deal with contingencies of this kind - at any rate those which did not involve large sums - without recourse to the central reserve. If any change is to be made, the two practicable alternatives would be to charge provisions of this kind to the Defence Budget by altering current definitions of what constitutes normal defence expenditure, and rely on the ability of the Ministry of Defence to absorb the cost within agreed public expenditure totals - or to give the Diplomatic Budget a small contingency fund in its own programme out of which to meet expenditure of this kind (if such a fund were as large as £5 million, it could also



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cope with the financial problem identified in B. below). The FCO would like to see one or other of these alternatives adopted; the Treasury and the Ministry of Defence favour leaving matters as they are, and leaving the FCO to draw on the central contingency reserve for appropriate cases. If Ministers decided in favour of a contingency fund in the Diplomatic Budget, it would have to come out of the central contingency reserve, unless it was financed by a reduction in some other programme.

B. Provision of Military Equipment (paragraph 3. b above).

As part of Britain's contribution to countering the effect of Soviet power, the FCO attach importance to our being more able than at present to make limited quantities of arms rapidly available to friendly Third World countries who are not in a position to pay for them in full or at all. The constraints are finance and availability:

- (i) Finance. Major cases will always need to be dealt with from the central contingency reserve. Finance for smaller sums might involve £2½ million a year, which could be provided from an FCO contingency fund of £5 million as described in the second alternative under A. above, if Ministers decided in favour of that; as from the central contingency reserve.
- (ii) Availability. This problem would in the FCO's view be eased if a stockpile of basic items were established at a capital cost of rather more than £3 million over two years. But the Ministry of Defence and Treasury have practical doubts about whether this would be worthwhile; and it would in any case present an additional problem of financing, which could only be overcome by diverting further funds from (and therefore accepting further resource penalties within) one or more of the three Budgets.

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C. The Scale, Nature and Financing of UKMTAS (paragraph 3.a above).

It is highly advantageous for Britain to be able to provide military training assistance to Third World countries. It will remain necessary for some of this assistance to be paid for by Britain through UKMTAS. The programme should continue to be managed by the FCO. It is difficult to gauge with any precision the amount it would be right to spend. Demands (and British interests) vary from year to year. The benefits of meeting these demands can at best be quantified retrospectively, and the penalties of not doing so cannot be quantified at all. But in the view of departments other than the Treasury the United Kingdom could probably meet the most important demands put upon it if UKMTAS were in future funded on about the scale of 1979-80, when it paid for the training of 840 students from 42 countries and for 24 loan service personnel in 6 countries, at a cost (at 1980 survey prices) of just under £8 million. This would be  $£\frac{3}{4}$  million above expected expenditure in 1980-81 and £4 million above the existing PESC provision for 1981-82 and subsequent years. Unless Ministers were willing to allocate new money to the Diplomatic Budget, from the central contingency reserve, the extra money would have to be found by means of transfers from either the Defence Budget or the Aid Budget or both. Neither the Ministry of Defence nor the ODA is able to agree to such transfers.

D. Accounting Arrangements for UKMTAS (paragraph 1(iii) above).

No change in accounting arrangements would ease the central problem of deciding what other desirable objectives should be forgone if extra resources are to be devoted to UKMTAS. There are good general reasons for continuing present practice, under which i. the MOD charges the FCO the same rates for UKMTAS customers as it charges overseas governments who themselves pay for training courses in Britain or British LSP; and ii. MOD charges as near full costs as the market will bear. Under existing accounting arrangements (which are being tightened up) the volume of UKMTAS which the FCO can afford will not be materially affected by increases or reductions in the level of MOD's charges.