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Deferred

10 DOWNING STREET

*From the Private Secretary*

11 August 1981

Review of Defence Cash Limits

The Prime Minister has read the Chancellor's minute of 5 August, and has noted that the Review of the Defence Cash Limits is being deferred until September. She has offered one comment - she hopes that the figures for increased equipment costs will show how much these are accounted for by pay increases.

I am sending a copy of this letter to Brian Norbury (Ministry of Defence), Terry Mathews (HM Treasury) and David Wright (Cabinet Office).

J. P. LANKESTER

Peter Jenkins, Esq.,  
HM Treasury.

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Treasury Chambers, Parliament Street, SW1P 3AG  
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PRIME MINISTER

12  
5/8

REVIEW OF DEFENCE CASH LIMITS

As you know, officials have been reviewing the case for adjusting this year's defence cash limits. Leon Brittan and John Nott discussed the problem on Tuesday but because of the uncertainties involved they considered it better not to seek to agree on the size of any net adjustment to the cash limits at this stage but to defer the decision until September.

2. There remains a wide gap between the Treasury and MOD on the major point of disagreement - the assessment of the likely increase in defence prices this year. Deferment of the review until September will provide the opportunity to collect and assess more information on current price movements to validate the forecasts one way or the other. John Nott has already had some success in cutting back his forecast overspend. He has agreed to take additional corrective action now further to reduce the risk of overspend this year. MOD have been asked to resubmit their case for adjustment, with supporting evidence, as early in September as possible. I will keep you informed of progress.

3. I am copying this minute to John Nott, Leon Brittan and Sir Robert Armstrong.

May we also know the  
any increases also added with  
uncovered equipment costs?  
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*John Brittan*

PP (G.H.)  
5 August 1981

(Approved by the Chancellor of the Exchequer and signed in his absence)