



Ref. A07965

PRIME MINISTER

Statement on the Defence Estimates 1982

(OD(82) 16)

BACKGROUND

Although the paper does not say so, the planned publication date of the Statement on the Defence Estimates (SDE) is 28th April.

2. The SDE 1982 follows much the same form of the two previous Defence White Papers, except that the normal Statement of Policy in Chapter 1 is replaced by a chapter on Nuclear Forces which includes a shortened version of the Defence Open Government Document on the Trident II decision. As last year there are a number of free standing essays between the chapters. In the present typescript these essays have a "frame" round them. This year's SDE is somewhat shorter than last year's and is expected to cost £8.50 instead of £10.00: since most copies go to official purchasers, this is a small but welcome saving to the public purse.

3. In the absence abroad of the Secretary of State for Industry, the Minister of State for Industry, Mr. Lamont, has been invited. The Foreign and Commonwealth Secretary will be abroad. The Secretary of State for Defence has not asked if he might bring the Chief of the Defence Staff or other Chiefs of Staff: they did not attend this time last year.

HANDLING

4. The Secretary of State for Defence should be invited to introduce the draft SDE. You might then direct the Committee's discussion towards the following points:

- (a) Is the Lord Privy Seal content with the passages covering arms control in Chapters 1 and 2, and with the essay on arms control and security? On a point of detail, the draft says in paragraph 303 that the numbers of Russian SS20 missiles deployed within range of targets in Europe increased last year from 120 to 190. The most recent JIC assessment (JIC(82)(N) 25, dated 26th March 1982) gives a figure of 207, an increase of 27 launchers over the last three months.

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(b) The Lord Privy Seal should also be asked to comment on the treatment of problems outside the NATO area. Last year a whole chapter was devoted to this subject, but in this draft there is little more than the passage from paragraph 229 to paragraph 233. A good deal was also said on this topic in the Secretary of State for Defence's White Paper Cmnd 8288 published last June. The Secretary of State for Defence might be asked to comment on progress made towards implementing the measures announced then such as the extra stockpile of basic army equipment ready to support deployments and exercises outside the NATO area.

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with Ase*

(c) The Chief Secretary, Treasury, should be invited to comment on the section on the defence budget in Chapter 5 and on the presentation of the statistics in the volume on statistics (Volume 2). He may well query Table 2.2 which compares the figures for the defence budget announced in the 1981 Public Expenditure Survey (Cmnd 8494) in constant price terms with previous plans. The table is at Annex. It will be seen that, while the figure shown for 1982-83 against the 1981 Public Expenditure Survey line, £13,147 million, is 3 per cent greater than the figure for 1981-82 shown against the 1980 Public Expenditure Survey line, the figure of £13,469 million shown for 1983-84 is only 2.5 per cent higher than £13,147 million and the figure of £13,792 million for 1984-85 is only 2.4 per cent higher than £13,469 million. Thus informed readers of this table will see a discrepancy between these figures and the statement in paragraph 505, which has been agreed with the Treasury, of the Government's decision to plan to implement in full the NATO aim of a 3 per cent annual real increase in defence expenditure, up to and including 1985-86. Treasury Ministers will argue that public expenditure as a whole is now managed in cash rather than volume terms and thus it is inappropriate to include a table which attempts to translate the agreed cash figure into volume figures. You yourself have recently criticised the "artificial concept of real terms" in relation to Department of Education and Science expenditure

*with Ase*





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(Mr. Scholar's letter of 16th March). The Secretary of State for Defence is likely to argue that the omission of this table will be noticed since a similar table has appeared in previous Defence White Papers. He is also likely to say that if he is asked why the figures in the table do not show 3 per cent growth in 1983-84 and 1984-85, he should say that, as recognised in the Public Expenditure White Paper (Cmnd 8494), the figures for the later years are provisional. You will recall that the wording on defence in the Public Expenditure White Paper was agreed only with great difficulty. The underlying problem will have to be addressed in this year's Public Expenditure Survey, and it would seem premature to canvass now the possibility that the 3 per cent growth rate may not be achieved in 1983-84 and 1984-85. If a consensus cannot be reached in the Committee or bilaterally between the Secretary of State for Defence and the Chief Secretary, the problem will have to be considered at the Cabinet which discusses the SDE.

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- (d) You will wish to ask the Secretary of State for Defence whether he is now content with the cash provision for the defence programme in 1982-83, following the OD discussion in January and his further discussions with defence contractors on which he minuted you on 15th March. The Chief Secretary minuted on 23rd March to say that he hopes, in the light of current trends in cash payments, that the Secretary of State for Defence will be able to say that the difficulty has disappeared.
- (e) Of the four "essays", perhaps the most interesting is the essay on "Use of National Resources" which deals with two rather different matters, the use of national resources in a crisis and the use for defence purposes of equipment which industry already manufactures for civil purposes. You should ask the Home Secretary and the Minister of State for Industry if they are content. You should also ask the Minister of State for Industry if he is content with Chapter 4 on Defence Equipment, including its reference to the need for increased specialisation in NATO and the possible consequences for the defence industries in this country.





- (f) You might also ask the Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster if they have any comments on the sections dealing with service personnel and pay (Chapter 2) and Government efficiency (Chapter 5).

CONCLUSION

5. The Committee might be guided to the conclusion that the Secretary of State for Defence should be invited to circulate the draft Statement on the Defence Estimates 1982, amended as necessary in the light of discussion, for consideration by the Cabinet on 6th April. Members of the Committee may have minor comments on the draft which they do not want to discuss: since time for circulation of the draft to the Cabinet is short, it will be helpful if any comments beyond those raised in discussion were sent to the Ministry of Defence by close of business on 1st April.

ROBERT ARMSTRONG

31st March, 1982

Defence budget: comparison of Cmnd. 8494 expenditure plans with previous plans and with the 1982-83 Estimates at LTC '82 prices

TABLE 2.2

	1980-81	1981-82	1982-83	1983-84	1984-85
1979 Public Expenditure Survey (Cmnd. 7841) . . . . .	12,589	13,016	13,456	13,852	•
1980 Public Expenditure Survey (Cmnd. 8175) . . . . .	•	12,764	13,205	13,600	•
1981 Public Expenditure Survey (Cmnd. 8494) 2 . . . . .	•		13,147	13,469	13,792

£ million

1. Average 1981-82 prices expected when the 1982 long term costings were prepared.
2. To arrive at the Defence budget at 1982-83 Estimates prices and the cash figures for 1983-84 and 1984-85 as given in Cmnd. 8494 it is necessary to make adjustments as follows:

	1982-83	1983-84	1984-85
Additions for assumed price increases (a) . . . . .	941	1,829	2,657
Cmnd. 8494 cash provision . . . . .	14,083	15,298	16,449

(a) Based on the public sector cash planning factors published in Cmnd. 8494.