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PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

29 October 1984

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| CABINET OFFICE | |
| A | 8214 |
| 30 OCT 1984 | |
| FILING INSTRUCTIONS | |
| FILE No. | |

Dear Michael

MINISTERIAL GROUP ON PUBLIC EXPENDITURE (MISC 106):
THE DEFENCE PROGRAMME

Thank you for your minute of 24 October, which you discussed with MISC 106 earlier today. We are all most grateful for the helpful suggestions you made at the meeting.

For 1985-86, you said that you would accept a figure only £5 million higher than the Group's previous proposal, ie £18,060 million. For later years you thought that the figures should be £18,695 million for 1986-87 and £19,138 million for 1987-88 (inclusive of Falklands), subject to a deduction of around £35-40 million a year to reflect the provisional agreement reached on the 1985-86 figure. You explained however that you would be willing to consider lower figures for the two later years provided that there was an agreed form of words indicating that the figures were provisional.

As I promised, I am writing to set out the recommendations which MISC 106 are now minded to put to the Cabinet, on the basis described below.

First, we are prepared to recommend, as you proposed, a figure of £18,060 million for 1985-86, as part of a settlement covering all three years of the survey.

Secondly, for 1986-87 and 1987-88 we are prepared to recommend the baseline figures (adjusted for pay clawback), with the agreed addition for Falklands expenditure in the final year. That is equivalent, in rounded terms, to £18,564 million for 1986-87 and £18,867 million for 1987-88.

The Rt Hon Michael Heseltine MP

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Thirdly, we propose the following form of words for use in publicly presenting the figures.

'The provision for 1985-86 meets the Government's commitment to plan to implement the NATO aim of real increases in defence spending of 3 per cent per annum up to that year. The cash provision for later years will be kept under review in the context of the Government's expenditure plans, taking account of our military commitments and all other relevant factors.'

I should emphasise that we regard these proposals as a package. If you were not able to accept it, MISC 106 would feel free to reconsider their recommendations. Since time is now very short, I should be grateful if you could let me have your response by close of play tomorrow, 30 October.

I should also be grateful if you could put forward a specific proposal on manpower numbers.

I am sending copies of this letter to the members of MISC 106 and to Sir Robert Armstrong.