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Subject

File SH 35
cc John Hedwood
cc Master

10 DOWNING STREET

From the Private Secretary

1 November 1984

PUBLIC EXPENDITURE: DEFENCE

The Prime Minister held a meeting today to discuss the defence programme. Present were the Lord President, the Chancellor of the Exchequer, and the Secretary of State for Defence.

The Lord President said his group had reached agreement with the Secretary of State for Defence on his programme in 1985/86 but the provision for 1986/87 and 1987-88 was still not agreed. The Secretary of State for Defence was seeking a further £94 million in both years. The group had proposed a form of words stating that the provision for later years would be kept under review in the context of the Government's expenditure plans, taking account of military commitments and of other relevant factors. The Secretary of State had suggested an alternative formulation which stated that it was the intention to hold defence expenditure after 1985-86 broadly level in real terms, with the cash provision in 1987/88 subject to review in the light of price movements and other relevant factors.

The Secretary of State for Defence said he was not arguing that Britain's defence needs could not adequately be met within the provision recommended by MISC 106. The problem he faced was a political one, both at home and abroad. If he accepted MISC 106's recommendations, it would be clear that the programme was declining in real terms in years two and three. In the eyes of the US, the UK would be placed in the camp of those countries seeking to cut defence expenditure. It would make it easier for other NATO allies to scale down their contributions to NATO. The figure of £94 million would not only hold the programme constant in real terms in 1986/87 but it would also produce the same figure as that established in the 1984 PEWP. Since there was no published base line for 1987/88 the risk of adverse comparisons was less. His form of words was intended to reinforce the message from the figures that the programme would be held constant in real terms.

In discussion, it was argued that what mattered was not the finance available to the Defence Budget but what it

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delivered. The management techniques being applied by the Secretary of State for Defence were capable of delivering substantial improvements in defence even while in statistical terms, the defence programme was declining in real terms. The Secretary of State for Defence accepted the validity of this but observed that if discussion in NATO were allowed to shift from financial provision to the quality of defence offered, the scope for NATO allies to disguise a scaling down in their commitment would be increased.

In further discussion it was argued that the form of words offered by MISC 106, which was not being made available to any other programme, should provide the Secretary of State for Defence with adequate defence against criticism.

The Secretary of State for Defence said that if he accepted the group's offer on figures and words, it would be essential to present the Government's case to the defence constituency with greater vigour (he pointed out that he would be shortly facing an examination from the Select Committee on Defence). The Prime Minister assured him that he would have the full support of colleagues in this. On this basis, the Secretary of State accepted the proposal of MISC 106 that the defence programme should be £18564 million in 1986/87 and £18867 million in 1987/88, and that the programme should be qualified by the form of words suggested by the group.

Discussion then turned to manpower. The Secretary of State for Defence said the Government was easing off in its search for manpower savings and the targets suggested for other departments were insufficiently ambitious. He believed he was capable of delivering very substantial savings. But he was reluctant to quantify this until it was clear what other departments would be offering. To do so would create management difficulties for him in the Ministry of Defence. In discussion, it was pointed out that the Treasury needed to have a figure for publication. If an ambitious figure were offered for the Ministry of Defence, it would help the Treasury to put pressure on other departments in future years. The Secretary of State for Defence agreed to offer a figure. This was left for discussion with the Chief Secretary.

I am copying this letter to Private Secretaries to Members of MISC 106, to Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Miss Janet Lewis-Jones
Lord President's Office