

SECRET

17B WFT

file



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

7 November 1990

Dear Sir,

PES: THE DEFENCE PROGRAMME

The Prime Minister has read the Defence Secretary's minute of 6 November about the defence implications of the PES 90 round. She has commented only that regimental disbandments would cause disproportionate trouble.

I am copying this letter to the Private Secretaries to members of OD, Jeremy Heywood (Chief Secretary's Office) and to Sir Robin Butler.

Yours sincerely,

Charles Powell

Simon Webb Esq
Ministry of Defence

SECRET

FA (A-C)



Prime Minister

Regimental
disbandments will
MO 8/15DC can be worked
out

A fairly grim
assessment of the defence
consequences of this
year's PES settlement.
Options for change will
have to be completed
in three years

PRIME MINISTER

PES: THE DEFENCE PROGRAMME

The Chief Secretary and I have now reached conclusions on the Defence Budget for the next three years, and it is necessary to advise you of their implications.

2. You will appreciate the sharply contradictory pressures we face at present in Defence, with the need to press ahead with the savings that can flow from the reduction in tension in Europe, while ensuring that we meet the extra burdens of the Gulf.

(not five) & PAOR
reduced to one-third
(not one-half)

There will be
substantial

3. With this in mind, the savings identified are concentrated largely on the third year. We have met the extra Gulf costs for this year and next on the basis of 90% falling on the Reserve, but 10% to be found within the existing Defence provision.

redundancies
& regimental
disbandments.

4. Subject to agreement on Gulf costs, we have agreed the following figures:

	1991-92	1992-93	1993-94
1989 Settlement	22,505	23,583	24,173
Baseline at July OD	22,821	23,500	24,289
Now agreed	22,770	23,300	23,300

CAD
b/xi

5. In doing so, I was not ready to discuss specific proposals with Norman on the size of the Army, the timing of its rundown and the savings which would result, since costing and consultation on the post-Options forces still have a considerable way to go; the full picture will not emerge much before March.



6. In my judgement, this settlement will require us to proceed immediately with our Options for Change proposals over the bulk of the Defence Budget without waiting for the completion of NATO consultations; I also judge that we must aim to achieve them over a three year rather than the five year period that was previously agreed and announced in July. Further, I judge that we shall be able to afford an Army only near the lower end of the spectrum OD considered in July, with a BAOR nearer a third than a half of its current level; that some RN and RAF elements of the Options structure will also have to be reduced; Defence-wide, having to reach the post-Options stance faster than we had envisaged may well require substantial Service and civilian redundancies. For any such redundancy schemes the Chief Secretary and I have agreed separate funding arrangements whereby only 20% of the costs within an agreed ceiling will fall to the Defence budget. As was recognized by OD in July, we shall have to face numerous uncomfortable decisions; bringing the timetable forward in a sensitive year - and during Op GRANBY - will make this even more difficult. I must therefore look for the support of colleagues in decisions about equipment orders, base closures and regimental disbandments, with further consequences of the kind already prefigured by the announcement about Cammell Laird on Merseyside. Many constituencies will be affected to a greater or lesser extent.

7. To help ease the severity of programme decisions I intend to make the maximum savings practicable from efficiency measures.

8. Further, Operation GRANBY has brought home forcibly how much support has been neglected (eg the low availability of tanks requiring us to raid a Corps to get a brigade). Alan Clark is reviewing the equipment programme - both its scale and the number of systems in our current plans - but we must ensure that the force structure that remains is capable of carrying out the tasks we might require of it. For a mix of reasons the match between the



programme, its support, and the cash budget has increasingly got out of balance these past few years.

9. I have tried in my PES discussions to recognise the very difficult overall situation that Norman has faced and to make a real contribution. Given the uncertainties over the costing of our future Defence programme, I would expect Norman to want to look closely at our cash requirements in the context of PES 91. But at this stage I judge on balance as Defence Secretary that the conclusions of the PES 90 round can be accepted, but it will not be without some significant pain both in the Services, and in a wide range of industries and employment. I shall obviously seek to minimise the scale of the complaints, but I thought it right for yourself and OD colleagues, to whom I am copying this minute, to be aware of the position.

6 November 1990

(T K)