

SECRET

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FROM: CHIEF SECRETARY  
DATE: 7 November 1990

PRIME MINISTER

PES 90: THE DEFENCE PROGRAMME

I have read the Defence Secretary's minute of 6 November advising you of the implications as he sees them of the Survey settlement on the Defence Budget.

2. I see the settlement as a cautious one. I have accepted Tom's proposal that 90% of the extra Gulf costs in the current year and in 1991-92 will be met from the Reserve. With the Gulf costs largely set to one side in this way, and given that Tom's statement in July looked forward to manpower savings of around 18% by 1995, I had hoped to score much larger cash savings in the Survey.

3. As it is, the published figures will show no net savings in the first two years taken together, and it is only in 1993-94 that worthwhile reductions begin to emerge. I accepted that it was difficult to press for more in this Survey when so much further work has to be done over the next few months on costing the new plans and on working out how they can be most efficiently implemented.

4. For that reason, and as Tom notes, I will want to look very hard in the 1991 Survey at the scope for further savings in the present period and of course in the years beyond 1993-94.

5. Until this further work is done, I am not in a position to judge whether the manpower reductions must be implemented in 3 years to keep within the cash ceilings now agreed. I will want to look very carefully at the interaction between the timing of the rundown and the possible need for potentially costly redundancy schemes. And it is important to remember that MOD's sources of savings are by no means confined to reductions in military numbers. There is considerable scope for savings from meeting their efficiency targets in full, from seizing the opportunities for reorganisation of support services, and from having better targeted equipment and R&D programmes.

6. Of course these changes will be painful both to many servicemen and to the defence equipment industry. But this is the inevitable result of our decision to reduce our defence capability and costs in response to the improved international climate, and it was well understood by OD when we discussed the Options for Change paper in July. As for NATO, their planners will always urge us to do more but there is no reason why we should continue to shoulder an undue share of the burden, particularly when each of our allies are reducing their own contributions.

7. I am copying this minute to Tom King, other Members of OD, and to Sir Robin Butler.



NORMAN LAMONT