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Prime Minister (2)

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon John Nott MP
 Secretary of State
 Ministry of Defence
 Main Building
 Whitehall
 London SW1A 2HB

11 June 1982

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DEFENCE CASH LIMITS

I am surprised by the interpretation of cash planning contained in your Private Secretary's letter of 4 June to the Chancellor's office. There is no assumption under cash planning that cash limits should be increased automatically to cover additional in-year costs. The assumption is that efficiency and other savings should be made in order to contain expenditure within cash limits. Nor do I understand the apparent implication of paragraph 2 that paying the AFPRB is in some way not a "defence need".

The additional costs of the AFPRB and TSRB awards are very small compared with the total defence cash limits. I see no political problem in saying that, if it proves possible, the full awards were financed within existing provision by taut financial control, good housekeeping and efficiency improvements by the MOD. Indeed, I remain hopeful that it may prove possible to deal with at least some of the extra Falklands costs in the same way.. I am not suggesting cutting back on essential requirements: simply that in accordance with normal practice, any headroom which can be made available should be used to meet additional commitments. Some of the alternative methods of financing large extra defence costs might prove much less acceptable politically than a demonstration of good financial control by the MOD.

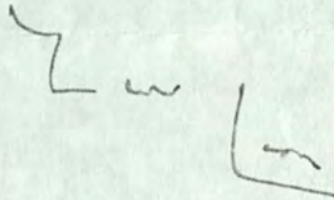
Cabinet has already agreed that every effort should be made to contain the costs of the recent Civil Service Arbitration Tribunal award within existing cash limits, subject to review of exceptional problems in the autumn.

I repeat my earlier suggestion that all these issues should be considered together later, when more information should be available.

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I understand that our officials are still discussing the relevant arithmetic, but that the true extra cost of the AFPRB award may prove to be a little less than the £34 million you have asked for.

I am copying this letter to the Prime Minister and to Francis Pym, Geoffrey Howe and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'L. Brittan', with a stylized flourish at the end.

LEON BRITTAN

CONFIDENTIAL

Mes 4/6



MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-~~2300222~~ 218 2111/3

MO 4/4

4th June 1982

Dear John,

ARMED FORCES PAY - CASH LIMITS

My Secretary of State understands the Chief Secretary has reservations about increasing the defence cash limit to accommodate the additional costs of the Service pay awards beyond the provision made in the 1982/83 Estimates. His reason is that he is unaware of any current pressure on the defence budget which would require further reductions in military numbers or in equipment and support to accommodate the amount of money - £34M - involved.

Although my Secretary of State understands that the Chief Secretary is prepared to consider the claim later, together with any other factors relevant to the 1982/83 defence cash limit, the matter cannot be left on this basis. A cash figure for 1982/83 was agreed after much discussion in last year's Survey. Whatever the current forecasts of cash spending - and it is much too early to make an authoritative assessment only two months into the financial year - the MOD must be free to spend this cash sum to satisfy defence needs; supplementary provision to meet the extra costs of the Falklands operation is a separate issue.

In accepting the full AFPRB recommendations the normal assumption was made that the cash limit would be enhanced to cover the additional costs beyond the Estimates provision, with corresponding increases in the PES years. The implication of the Chief Secretary's reservation is that the MOD should deliberately restrict its scope for manoeuvre in managing cash flow in the current year in order to find room for the additional costs of the Service pay awards. Politically it would be difficult to conceive of a more damaging time even to hint at the possibility of a change in our approach in this matter, and my Secretary of State is surprised that his political colleagues do not understand this. In short he would wish to announce as soon as possible an increase in Defence cash provision to accommodate the extra costs of the AFPRB and TSRB awards.

J O Kerr Esq

CONFIDENTIAL



I am sending a copy of this letter to Michael Scholar,
Terry Mathews and David Wright.

*Yours sincerely
Mich Evans*

(N H R EVANS)

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Prime Minister (4)

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cc. TV.

Treasury Chambers, Parliament Street, SW1P 3AG

N H R Evans Esq
Assistant Private Secretary to
Rt Hon John Nott MP
Secretary of State
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB

19 May 1982

Dear Nick,

ARMED FORCES PAY - CASH LIMITS

The Chancellor has asked the Chief Secretary to consider the request in your letter of 12 May for an increase in the defence cash limits of £34 million, in respect of the 1982 AFPRB award.

The Chief Secretary has asked me to say that, leaving to one side the costs of the Falklands operation, he is not aware of any current pressure on the defence budget which would require further reductions in military numbers or in equipment and support, in order to accommodate this relatively small amount. The trend of expenditure in the final months of 1981-82 was much lower than your Secretary of State was forecasting when the 1981-82 cash limit increase was agreed. In order to bring 1981-82 spend up to the revised cash limit, sums in excess of £300 million were brought forward from 1982-83. These factors should have been more than enough to remove any remaining pressure on the 1982-83 budget and to enable the MOD to absorb the costs of the AFPRB award. The Chief Secretary has always made clear that the extra costs of the award, above the sums assumed in the present provision, could not be automatically added to the provision.

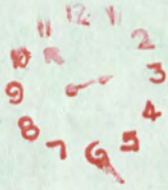
The Chief Secretary is therefore unwilling to agree to your Secretary of State's proposal to increase the defence cash limit at present, but will be prepared to consider the claim later, alongside any other factors relevant to the 1982-83 defence cash limit.

I am copying this letter to Michael Scholar and to David Wright.

Yours sincerely
T F Mathews

T F MATHEWS
Private Secretary

19 MAY 1982



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Prime Minister (2) *Defence*



Yes, thank you
Close MW
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Did you see this?

MCS 17/5

MCS 12/5

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~5367000~~ 218 2111/3

MO 4/4

12th May 1982

MS

Dear Peter,

ARMED FORCES PAY: CASH LIMITS

My Secretary of State has noted that the Prime Minister's announcement on pay of 6th May said that the financing of the increases for the Armed Forces would be considered further.

He has asked me to point out that he was not at Cabinet when this was discussed and that he is quite clear that his agreement to full implementation of the AFPRB recommendations was on the basis that the costs over and above existing provision would be met as an addition to the present MOD cash limit. Government policy is that the pay of members of the Armed Forces should be kept at levels comparable with those of their civilian counterparts. Having accepted AFPRB advice on what those levels should be, my Secretary of State presumes that the necessary additional cash will be provided, as it has been in previous years. If this is not agreed the costs of the award would have to be found from elsewhere in the defence programme, whether through further reductions in numbers or reductions in equipment and support.

My Secretary of State would therefore be glad to have the Chancellor's agreement to an increase of £34M in the defence cash limit for 1982/83 and corresponding increases in the PES years. The 1982/83 figure is the difference between the provision of 4% already made for pay increases and the estimated cost of the AFPRB recommendations; subsequent AFPRB recommendations on service doctors and dentists and London weighting, and the decisions on the TSRB report, will require further cash limit adjustments. He would like this to be announced as soon as possible so that there can be a firm basis for cash flow management within the MOD. However he would certainly not dissent if the Chancellor considered that Parliamentary authority for the additional provision should not be sought until later in the year, when account could be taken of other factors, notably the costs of the Falklands operation.

I am copying this to Michael Scholar and to David Wright.

Law ready
nick [unclear]

(N H R EVANS)

P S Jenkins Esq

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