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MO 26/16/1E

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Dec JH,

FUTURE DEFENCE REQUIREMENT FOR SUPPORT HELICOPTER

I have circulated separately a record of my Secretary of State's discussion this morning with Sir John Cuckney about support helicopters. As agreed with the Chief Secretary last night, he offered orders for 25 Utility EH101 to an ISD of late 1992 and 16 Lynx 3 Mk7 to an ISD to 1990.

I should record the understanding reached on the funding of these orders:

a. As explained in the Defence Secretary's minute to the Prime Minister of 12th March - and as discussed earlier between MOD and Treasury officials - the offer to fund an order for Utility EH101 to an ISD of late 1992 rather than 1994 from within the defence budget is on the basis that the full financial impact will be borne in mind in PES 87.

b. The procurement cost of 16 Lynx 2 Mk7 (including initial spares) to an ISD of 1990 will be met by additions to the defence budget as follows:

<u>88/9</u>	<u>89/90</u>	<u>90/1</u>	(£M at LTC 87 prices)
+ 19	+ 31	+ 12	

The additional operating costs, which were also shown in the additional costs quoted in my Secretary of State's minute, will be met from within the defence budget.

c. The financial impact of reducing the planned Utility EH101 order from 30 to 25 helicopters will arise outside the PES period. As our officials have discussed, even after reducing the planned order to 25, the total provision now

Jill Rutter
PS/Chief Secretary to the Treasury



required (excluding that for Lynx) still exceeds that made originally against different assumptions in the MOD 1987 Long Term Costing.

Our officials can no doubt sort out the technical handling of this understanding in the figurework for PES 87.

I am sending a copy of this letter to David Norgrove (No 10).

Yours ever,

John Howe.

(J F HOWE)
Private Secretary