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cc Mr. Scholar

Mr. Hoskyns

Prime Minister.

MR. WHITMORE

I think you should see this note from Mr. Verker.  
I agree with him but it would be worth your while  
to raise tomorrow the question of a trade-off between  
equipment expenditure and personnel expenditure in future.

OD: Defence estimates and Service pay

plw  
26.1.92.

OD may find it extraordinary that Mr. Nott's paper for OD tomorrow discusses ways of closing the £335 million "gap" without ever mentioning the cost of Service personnel. As I mentioned to you this afternoon, in an ideal world Ministers would be given an option of offsetting cost overruns in one part of the Defence programme with economies in the other.

The position on Service pay for 1982/83 is not entirely clear. As you know, in the earlier years of this Administration the Defence estimates contained the pay assumption applicable to the public services generally, but the Ministry of Defence were given an assurance that more cash would be made available to meet the cost of the actual award of the AFPRB. Chris France in MOD has now confirmed to me that he is not aware of any such assurance this time round; but he went on to say that it was assumed without question that earlier assurances still applied. Nonetheless he accepts that when Ministers decided to let all the review bodies continue with their reports without interference, they did not say that they would necessarily accept their recommendations.

It would therefore be possible for the Prime Minister to suggest in OD tomorrow that Mr. Nott might find, say, £100 million of his "gap" by taking 4% off whatever the AFPRB awarded. Each 1% on Services pay is worth about £24 million; and I rather doubt that we shall be able to persuade MOD to override the AFPRB recommendations on any other basis.

MOD's response to this proposition is, naturally enough, that no such deal could be struck because it would involve going back on our assurances to the armed services; and because it is anathema to the Services to be told that savings on Service pay are being made in order to finance equipment. I do not accept these arguments: at a time when we are cutting back on public service pay generally, and have already decided to review the commitment to armed forces

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comparability, I am sure we can hold the line on our earlier assurances; and I think it is simply absurd for the armed services to think it right that they should go on doing so well out of pay at the effective expense of our defence capability. But I think it is true to say that any attempt to strike a deal at this late stage would fail because of opposition from the Services generally, and that that might prejudice our longer term effort to improve upon the AFPRB system.

I think, therefore, that there would be some advantage in the Prime Minister taking the opportunity in OD tomorrow to say that she hopes that in future years the system will not continue to generate large pay increases for the Services at a time when we are having to cut back on the hardware.



John Vereker

26 January 1982

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