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From:
Assistant Private Secretary
MINISTER OF STATE FOR
THE ARMED FORCES

9 August 1983

D/MIN(AF)/JS/2/2

Dear Jane,

Thank you for your letter of 3 August which Mr Stanley has considered in Mr Heseltine's absence.

Mr Stanley has noted that the Chief Secretary has given instructions to your officials about the drafting of the defence chapter in the PES report, but he wishes to record, that, for the reasons given by Mr Heseltine in his letters of 15 July and 28 July our Secretary of State has not accepted the baseline for 1986/87 implied by the figure of £1829lm which the chapter will now show.

In the view of our Ministers, the defence baseline for 1986/87 does not now accord with the Survey guidelines as approved by the Cabinet. Moreover Mr Stanley is surprised that the Chief Secretary should justify the reduction of Falklands expenditure to nil in the 1986/87 baseline in the name of consistency. No other major defence commitment is being treated in this way. Moreover there was specific agreement in last year's PES settlement that full allowance should be made in the defence budget after 1985/86 for continuing costs associated with the defence of the Falklands.

Mr Heseltine will see this exchange of letters on his return to office and may wish to add his own comments. Meanwhile Mr Stanley agrees that it would be useful for officials to discuss a breakdown of our estimated Falklands costs in 1986/87 in advance of the bilateral in the Autumn. He has asked officials here to set the necessary work in hand.

I am sending copies of this letter to Michael Scholar, John Kerr, Brian Fall and Richard Hatfield.

Yours sincerely,
Carl Hatfield

C N Mantell

Miss Jane Swift,
Assistant Private Secretary to
the Chief Secretary.

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MBPM



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3 August 1983

Lee R. Nettle

PUBLIC EXPENDITURE SURVEY 1983

15.23 The Chief Secretary was grateful for Mr Heseltine's letter of 28 July.

The Chief Secretary thinks that there has been a misunderstanding of the purpose and status of Survey baselines and bids. The baseline does not automatically reflect existing policy. Bids are often made to maintain existing policies, and it is the amount of money required that constitutes the bid. The purpose of the baseline is to provide the starting-point for considering possible adjustments - to reflect new or existing policies. This is why the provision to be made for Falklands costs should be considered as a bid.

The Chief Secretary believes that there is very little between the departments on this issue, but he does consider it important that the Report should be prepared on a consistent basis. He would have liked to secure your Secretary of State's formal agreement before the latter went on leave. However, since the draft PES Report must be settled now the Chief Secretary has instructed officials that the defence chapter should show a 1986-87 baseline of £18291 million. This is on the understanding that the baseline does not prejudge what provision should be made for the Falklands in 1986-87; and that the appropriate sum will need to be determined during the Survey.

The Chief Secretary has therefore suggested that defence officials let the Treasury see a full breakdown of estimated Falklands costs as soon as possible, so that progress can be made in advance of the bilateral in the autumn.

I am copying this letter to the private secretaries to the Prime Minister, the Chancellor, the Foreign and Commonwealth Secretary and Sir Robert Armstrong.

yours sincerely
Jane Swift

JANE SWIFT

Assistant Private Secretary

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Public Expenditure
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