



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 2/2/6

4 November 1985

MOD RUNNING COSTS

Thank you for your letter of 30th October. *attached*

The decision taken at Cabinet on 3rd October and the parliamentary announcement on 22nd October were, of course, taken and expressed in general terms. They could not, and did not, take account of the special problems which the new running costs regime would present for the Ministry of Defence, which were under separate consideration at the time of the Cabinet meeting.

As we have discussed, it would be inappropriate to apply this regime to our front-line Service personnel and its application to the 58,000 Service personnel I am prepared to see covered must take account of the fact that they perform

The Rt Hon John MacGregor OBE MP



functions in support of front-line units (as, of course, do a considerable proportion of our civilian staff). Moreover - because of problems of disaggregation - the non-pay costs included in our running costs provision relate to all Service personnel as well as civilians. We are involved in some very rough and ready figuring. While we shall certainly endeavour to keep within the running costs total, I, therefore, consider it essential that I retain my existing capability to manage the defence cash limit as a single block.

I hope that, on reflection, you can now accept that this capability should remain unimpaired. In that event I would feel able to accept your proposal that the running costs total for 1986-87 should be set at £5215 million, if this would help you over your general presentational problem.

Having said this, I might observe that my own bid (£5258) represented an increase of 5.3% over the comparable figure for 1985/86 so I am not clear why it would push the total back over 6%. Since it is now clear that Departments have freedom to put in their own figure only so long as it is not more than 5%, I am also left wondering in what meaningful sense we have abandoned a central pay assumption. But no matter.

Our officials are at present discussing the question of the Estimates presentation, as suggested in your letter of 21st October. The reasons which have been advanced for changing



the format of the Votes do not seem compelling. We could, for example, inform Parliament of our running costs provision in the preamble to the printed Estimates and there are ways of concealing the additional provision for pay increases which do not call for any restructuring. The grounds for pressing these changes therefore seem to me to be obscure, unless it is the ultimate intention to move to voted running cost cash limits which, as you know, would not be acceptable to me. But we can take this further when officials have put forward advice.

I am copying this letter to the Prime Minister and to Sir Robert Armstrong.

Yours ever
MHS

Michael Heseltine

