



Mr Whitmore
to see

Prime Minister

(2)

MUS 22/6

Treasury Chambers, Parliament Street, SW1P 3AG

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

22 June 1982

Thank you for your letter of 11 June about end-year flexibility. I am glad that your officials will participate in the wider study arising from the proposals in Michael Heseltine's letter of 29 April.

The implication in your letter that the Treasury has in some way held up the discussion of this matter is not justified. It is true that the remit on this occasion came from OD and arose in the context of defence. But it is clearly of far wider application and affects many other colleagues apart from those represented on OD. For that reason it was agreed with the Cabinet Secretariat at the time that a report should be made to Cabinet as a whole. It was under the impression that you were aware of that (your officials certainly were) and had not objected. I am sorry if there was a misunderstanding.

A draft paper written by my officials was discussed with yours some considerable time ago. It was agreed then to delay further action until it became clearer how successful MOD had been in eliminating the large underspend then in prospect on the defence budget in 1981-82 by making use of methods already available. Again, I was under the impression that you had been consulted.

I understand that it has now become apparent that the underspend was eliminated, and that, partly because bills which would have fallen in 1982-83 were paid in 1981-82, and apart from the very large question of the Falklands, the problem with which we were specifically concerned in OD in January concerning 1982-83 no longer exists.

The introduction of a general scheme of end-year flexibility could cost between £350 and £500 million a year, depending upon its precise specification. We can hardly take decisions with consequences of that magnitude separately from the rest of our decisions about public expenditure.

I had therefore in mind that the report by officials should be ready to lay on the table for discussion with Cabinet along with other public expenditure matters on 15 July, and that we should take a decision about it in the autumn.

I frankly do not see that a separate independent discussion in OD would serve much purpose, in view of the inevitable need for spending on this scale to be considered in the context of the general public expenditure discussions which we shall all be having.

I am copying this letter to members of OD.

*Y
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(Signature)

LEON BRITTAN

