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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Michael Heseltine MP  
Secretary of State for Defence  
Ministry of Defence  
Main Building  
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*N 22/10*

21 October 1985

*Dear Michael,***PAY ASSUMPTION AND RUNNING COST LIMITS**

Thank you for your letter of 14 October to Nigel Lawson. Some of the issues to which you allude were, of course, covered in my letters of 14 October to Geoffrey Howe and George Younger.

I recognise that the relative inflexibility and early stage of development of your financial management systems create some difficulty. You will therefore not yet be able to present a breakdown of your vote 1 by function or organisation in the way that most other votes will be divided and, indeed, your Procurement Executive vote 2 is already presented. But, as I said to Geoffrey, I could not justify presenting your department's Estimates to Parliament in a format that differed from others. I suggest that our officials should meet urgently to discuss further how best your vote format can be reorganised, if necessary on an interim basis while you are adjusting your internal systems, consistently with the proposals in Nigel's minute of 26 September, as endorsed by Cabinet. This refinement of the presentation should not hold up agreement to the running costs figures for MOD which I am anxious to settle as soon as possible.

You suggested reverting to officials' earlier idea that main Estimates would contain no provision for pay increases, which would instead be sought in Supplementaries. You cite the difficulty of keeping your internal pay assumptions from becoming known. I see little attraction in this approach; in particular, as I am sure Parliament would be quick to point out, it would be a step backwards,

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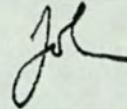


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breaking the links both between the planning totals in the White Paper and control totals in Estimates, and between main Estimates provision and the substantive cash limit. Moreover your suggestion would do nothing to hide your pay assumptions; anyone who subtracted your main Estimates provision for running costs from your running costs plans in the preceding public expenditure White Paper would be able to calculate what you had set aside for pay increases. I recognise that internal budgeting assumptions may leak; but the important point is that running costs limits will have been set and agreed in terms of a total cash figure, and Estimates presentation is a crucial element in this argument.

I am copying this letter to the Prime Minister, members of Cabinet and to Sir Robert Armstrong.

*Yours ever,*



JOHN MacGREGOR



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