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MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

MO 2/2/6

18 November 1985

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NBPM.

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MOD RUNNING COSTS

Thank you for your letter of 6th November.

I am glad to note that you have accepted that the MOD's running costs total should be treated as a target rather than a limit during 1986/87. I must say, however, that I am surprised by your suggestion that this should only be an interim arrangement, not least in my view because of the assurance in the earlier part of your letter that the new running costs regime is not intended as an attack on our block budget. The reasons why I consider it essential to retain my capability to manage the defence cash limit as a single block are more fundamental than such technical points as the degree of efficiency of our monitoring arrangements in the early stages. The essential points are, first, that much of the expenditure covered in our

The Rt Hon John MacGregor OBE MP



running costs provision is in support of our Armed Forces and therefore very different in character from the kind of administrative costs which the new regime is intended to control; and, second, that the cash limiting of a rather arbitrarily selected group of expenditure items would basically conflict with the way in which we manage, and need to manage, our resources in the interests of securing value for money. I must make it clear therefore that I regard your proposition that our running costs provision should be treated as a limit after 1986/87 as unacceptable; nor can I see why there should be any difficulty in explaining to Parliament why it is necessary to maintain this distinction between the Ministry of Defence and other Departments should the need arise. But, as I said in my letter of 4th November, we shall certainly endeavour to keep within the agreed running costs total.

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

Michael Heseltine

CIVIL SERVICE: Long Term: PE18

