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MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

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5th December 1985

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MOD RUNNING COSTS

Thank you for your letter of 30th November which I am bound to say I found disappointing.

As I said in my letter of 4th November, the decision taken at Cabinet on 3rd October could not, and did not, take account of the special problems arising in the case of the Ministry of Defence which were the subject of separate correspondence at the time of the Cabinet meeting.

In your letter of 6th November you specifically assured me that the running costs regime was not intended as an attack on my block budget. That being so, I cannot understand why you should be proposing that this Department's running costs total should be a limit rather than a target after 1986/87 since this would have precisely that effect. This is not simply a matter

The Rt Hon John MacGregor OBE MP

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of accounting practice: it is a crucial issue which concerns the way in which we manage the resources required for the support of our defence capabilities.

I consider it important to resolve this issue sooner rather than later. Apart from anything else, it has a bearing on what is to be said about the Ministry of Defence's running costs provision in the Public Expenditure White Paper.

I am sending copies of this letter to the Prime Minister ✓
and to Sir Robert Armstrong.

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Michael Heseltine

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CIVIL SERVICE: Long Term Policy: A-18

