

CONFIDENTIAL



2PP'S

ccBG

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Michael Heseltine MP  
 Secretary of State for Defence  
 Ministry of Defence  
 Main Building  
 Whitehall  
 London  
 SW1A 2HB

N30N

N30N

18 December 1985

Dear Secretary of State

## MOD RUNNING COSTS

Thank you for your letter of 5 December.

The Cabinet discussion on 3 October did not of course address every Minister's individual situation but that was not our objective. The question was whether we wished to introduce a regime in which running costs across all departments were controlled effectively through limits. It was decided that running costs limits should be so introduced.

It is essential that the control system used to implement this decision is presented as having comprehensive coverage across departments. This could hardly be the case if MOD (with one-third of all civil servants) were exempted. Including your department is vital to the credibility of the whole regime, although I have agreed that for 1986-87 your running costs should be treated exceptionally as a target (because of the temporary difficulty over distinguishing accurately the costs of Armed Forces included in running costs from those excluded).

I have said before that there is no question of an attack on your block budget. If unforeseen circumstances occur requiring a revision of any particular limit, a case can be made to me accordingly just as with a cash limit.

I have also agreed, to take account of defence operational considerations, that over 80 per cent of Armed Forces personnel should be excluded from running costs coverage.

Thus I see it as important to the Government's objective of controlling running costs across all departments that we respect the Cabinet decision on 3 October, and apply the

CONFIDENTIAL

CIVIL SERVICE LONG TERM

CONFIDENTIAL

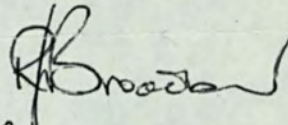
PT 18

rules of the new regime with due consideration for other government responsibilities. I am sure you will agree that this is eminently reasonable.

Given this common background, I do not think that drafting a text for the public expenditure White Paper should cause insuperable problems. I hope our officials can now seek to agree one quickly.

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

Yours sincerely



for JOHN MacGREGOR

(Approved by the Chief Secretary)



CONFIDENTIAL