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NBPT at this stage

MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

MO 2/2/6M

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14th October 1985

DIRECT DIALLING 01-218 2111/3

PAY ASSUMPTION AND RUNNING COSTS LIMITS

In your minute of 25th September you proposed that the running costs provision of each Department should be shown in aggregated form in its Main Estimates.

As has already been explained to your officials, this proposal would call for a major restructuring of Defence Votes. On the basis of past experience, it would take up to nine months to complete all the detailed accounting and computer programming changes required. Implementation in time for the 1986/87 Estimates is therefore impossible: the earliest implementation date would be 1st April 1987.

Aside from the problems of timing, I am by no means convinced that this is the best method of approach. Once the Estimates have received Treasury approval all our Vote managers are issued with cash allocations (usually in February or March); and it would be apparent from the allocations for Service and

The Rt Hon Nigel Lawson MP



civilian pay what assumptions had been made about pay increases in the Estimates year. Equally, we would be faced with this problem when issuing managerial budgets under the arrangements which we are introducing as part of our response to the Financial Management Initiative. Even if the provision for pay increases was held back until the pay awards had been settled it would still be possible for the Vote management staff concerned to gain some idea of the pay assumptions underlying the Estimates.

In view of these difficulties I feel that there would be merit in giving further consideration to an alternative method of approach which has, I gather, previously been identified by the Treasury. Under this option, no provision would be made for pay increases in the Main Estimates; instead the necessary Supplementary provision would be sought in the light of the pay awards. This would not only dispose of the problem of concealment but enable us to avoid the need for major changes in the Vote structure and the consequential loss of information which is currently given to Parliament.

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

A handwritten signature in dark ink, appearing to read "Michael Heseltine".

Michael Heseltine

CIVIL SERVICE
LONG TERM MANAGEMENT
PT 18

