



CCBG

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MO 2/2/6L

NBM

Dear John,

MOD RUNNING COSTS

You wrote to Michael Heseltine on 18th December on the question of whether the MOD's running costs total should be treated as a limit rather than a target after 1986/87. *at 2.00*

Since then there has, of course, been some discussion about the relevant passages in the Public Expenditure White Paper and a neutral wording was agreed which left the nature of the longer-term arrangements entirely open. Now that the issue has lost some of its urgency I suggest that we defer further consideration for the present, on the basis that it will need to be resolved before the 1986 Survey. This in fact accords with what you were proposing in your letter of 30th November. At the same time I must tell you that having looked at the papers I find Michael Heseltine's arguments compelling.

The Rt Hon John MacGregor OBE MP

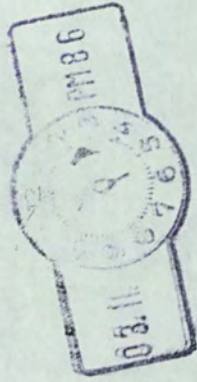


I am sending copies of this letter to the Prime Minister
and to Sir Robert Armstrong.

Yours *was,*

George

George Younger



CIVIL SERVICE
Long Term Management