



MO 8/2/12

PRIME MINISTER

FINANCIAL MANAGEMENT IN THE MINISTRY OF DEFENCE

I believe you would wish to know of two studies of financial management in the Ministry of Defence which are now in progress.

2. The first concerns our financial control procedures. These have not been able to cope with the conditions of deep recession and double digit inflation which has been our experience this year. There is no perfect system which can be guaranteed to bring the defence budget into the nearest £ against the cash limit on 31st March each year, in present or indeed any other economic conditions. That is just not possible. But we must ensure that our arrangements for forecasting, monitoring and control are as effective as we can make them, especially in the procurement area, where this year's problems have been extremely acute. The study will be carried out by an experienced Assistant Secretary in the Ministry of Defence for completion by 31st March who will be assisted by an accountant from the private sector with experience of cash flow control in industry, which our operations in many ways closely resemble. I shall want the study to look particularly at ways of reconciling the conflicting areas of obtaining maximum value for money through our contractual and ordering procedures and cash control on an annual basis. The study will also take account of the examination on which much work is already being done with industry of the scope for applying some kind of cash limit system to the work done for us by industry.

3. The second study is of financial responsibility and accountability. It is a much larger task and will be for completion by the end of September. But I wish to be sure that we have a system which is as specific and precise as possible: that, wherever practicable, specific authority and responsibility is allocated to individuals and not diffused; and that accountability covers, and is seen to cover, not only the acquisition of new resources by Voted money but also the efficient management of existing resources and activities, where our purpose is to achieve maximum economy consistent with our defence objectives. Full account will be taken of the Rayner studies so far completed.



4. Both studies will assume continuation of the present PES and Supply Systems and of the present rules for Government Accounting though changes will be proposed if they are needed. I am looking not simply for analysis but for improvement. As an example, we are moving to monthly payment of bills in February 1981 - which is sensible and will save staff.

5. I shall be taking a close personal interest in the studies and do not preclude their eventual publication, but I would rather not prejudge this. My officials will circulate details to the other Departments who will be interested and with whom we shall keep in touch and consult as necessary.

6. I am sending copies of this minute to Geoffrey Howe, Keith Joseph, Christopher Soames, John Biffen and to Sir Robert Armstrong and Sir Derek Rayner.

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Ministry of Defence

31st December 1980