



10 DOWNING STREET

Sir D Hayes

30 October 1981

From the Private Secretary

Financial Management in the Ministry of Defence

Thank you for your letter to Michael Scholar of 27 October. The Prime Minister was grateful for the consideration given by your Secretary of State to the points made in Clive Whitmore's letter of 21 September to David Omand.

The Prime Minister is glad that the position on the acceptance of recommendations is to be clarified as you indicate.

The Prime Minister finds the reasons for not giving the Systems Controllers "a more formal responsibility" for observing the cash limits on the Defence Procurement Vote somewhat elusive but doubts whether there is much between the Secretary of State and herself on this.

The Prime Minister can understand that, in a technical sense, the "responsibility" at issue rests with the Chief of Defence Procurement as Chief Executive and Accounting Officer; that it cannot be alienated by him; and that it would be misleading to give the impression that the Controllers had some authority of their own different from or independent of his.

Equally, however, it seems sensible for responsibility to be delegated down the management chain link by link so that the Controllers, as next in line, act for the Chief of Defence Procurement across the whole range of their duties: indeed, the arrangements now envisaged seem to provide for this since you say in the third paragraph of your letter that:

"The Vote Managers answer to the Chief of Defence Procurement through the Controllers, to whom the Chief of Defence Procurement looks to supervise the actions of Vote Managers and the control of cash in their areas of responsibility."

That being so, the Prime Minister wonders whether paragraph 40 of the draft document makes rather heavy weather of the point in that it rejects the terms but not the spirit of the team's recommendations. She herself would prefer to see the point dealt with as in the second part of the third paragraph of your letter (i.e. after "stated").

/I am

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I am copying this to the recipients of your letter.

5000 F. S. NICRETT

N.H.R. Evans, Esq.  
Ministry of Defence

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ga/ R by the draft at  
C  
W 20/10

PRIME MINISTER

Financial management in the Ministry of Defence

You raised two points on the Report on financial management in the Ministry of Defence that Mr. Nott proposes to publish. Mr. Nott has considered your comments, and the reply from his office is at Flag A.

The first was that you felt the text should include an indication of when Ministers expect to take decisions on the more detailed recommendations of the Study. Mr. Nott has agreed to this. The text will now indicate the Department's intention to review progress, and, where appropriate, take decisions on these recommendations by January 1982.

The second point was that you could not understand why Mr. Nott had appeared to have rejected the Report's recommendation that formal responsibility for observing the cash limit on the defence procurement vote should be devolved to the Systems Controllers. Reading the letter from Mr. Nott's office, it appears that the difference between you and Mr. Nott on this point is now merely a matter of words. The minute from Mr. Priestley at Flag B explains this. Briefly, the MOD appear to be arguing that they have decided to devolve financial responsibility to the level below the Systems Controllers. Mr. Priestley points out that if this is in fact the case, the Systems Controllers will in practice be unable to avoid taking some responsibility themselves. He suggests that I write to Mr. Nott's office along the lines of the draft at Flag C, and I think this sets out the position quite clearly. Agree that I should write as drafted?

CW 20/10

Yes  
MS

29 October 1981



Mr SCHOLAR

FINANCIAL MANAGEMENT IN MOD

1. I attach a possible draft letter for your signature to Mr Evans in response to his letter to Mr Whitmore<sup>you</sup> of yesterday. For background, you may like to refer to my minutes to Mr Whitmore of 18 and 22 September.
2. I have had a word on the phone with Mr Bryars, the DUS (Finance and Budget) in MOD. He agrees with me that all that is now between Mr Nott and the PM is a matter of words. Of course, it is highly unlikely that Mr Nott himself attaches any importance to the effort being made by some people in MOD to avoid making the Systems Controllers responsible for observing the cash limits. Although Mr Bryars was too loyal to say so, I think he feels, as I certainly do, that MOD has had a fit of the silly Billies over this.
3. What has happened is that people in MOD, I do not know who, have bent over backwards to avoid making the Controllers more clearly responsible for what goes on beneath them. In the end, it is quite clear from paragraph 3 of Mr Evans's letter, MOD has had to face up to the fact that in a sensible world, and in line with normal theories of delegation, there is no way in which the Controllers can be left out of the management line descending from the Chief of Defence Procurement to the Vote managers down below. So it is now a matter of justifying what was, I suspect, a rather petulant and hasty rejection of the team's recommendations.
4. The way MOD have got themselves off this hook is to pretend that the team was recommending that the Controllers should be given an independent authority. I am sure that this was not in their mind.
5. The Prime Minister may feel that the draft letter I am suggesting is too technical and "non-Prime Ministerial" to be acceptable. If she does, I hope she will accept it as in part at least a brief. If she wanted to shorten the



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text you could cut out the little sermon on the technical aspects of "responsibility" and restrict the text to the reference to Mr Evans's letter and the penultimate paragraph of the draft.

*C*

C PRIESTLEY  
28 October 1981

Enc: Draft letter to N H R Evans Esq

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Copies to:

DRAFT LETTER TO:

N H R Evans Esq  
Ministry of Defence

J O Kerr Esq, HM Tsy  
David Hayhoe Esq, Lord President's  
Office  
David Edmonds Esq, DOE  
Ian Ellison Esq, DOI  
John Rhodes Esq, DOT  
Terry Mathews Esq, HM Tsy  
J Buckley Esq, CSD  
D J Wright Esq, Cabinet Office  
C Priestley Esq, Cabinet Office

FINANCIAL MANAGEMENT IN THE MINISTRY OF DEFENCE

*Thank you for your letter of 27 October.*

1. *∟* The Prime Minister was grateful for the consideration given by your Secretary of State to the points made in Clive Whitmore's letter of 21 September to David Omand.
2. The Prime Minister is glad that the position on the acceptance of recommendations is to be clarified as you indicate.
3. The Prime Minister finds the reasons for not giving the Systems Controllers "a more formal responsibility" for observing the cash limits on the Defence Procurement Vote somewhat elusive but doubts whether there is much between the Secretary of State and herself on this.
4. The Prime Minister can understand that, in a technical sense, the "responsibility" at issue rests with the Chief of Defence Procurement as Chief Executive and Accounting Officer; that it cannot be alienated by him; and that it would be misleading to give the impression that the Controllers had some authority of their own different from or independent of his.



Equally, however,

5. < it seems sensible for responsibility to be delegated down the management chain link by link so that the Controllers, as next in line, act for the Chief of Defence Procurement across the whole range of their duties: indeed, the arrangements now envisaged seem to provide for this since you say in the third paragraph of your letter that:

"The Vote Managers answer to the Chief of Defence Procurement through the Controllers, to whom the Chief of Defence Procurement looks to supervise the actions of Vote Managers and the control of cash in their areas of responsibility."

6. That being so, the Prime Minister wonders whether paragraph 40 of the draft document makes rather heavy weather of the point in that it rejects the terms but not the spirit of the team's recommendations. She herself would prefer to see the point dealt with as in the second part of the <sup>third</sup> ~~first~~ paragraph of your letter (ie after "stated").

7. I am copying this to the <sup>recipients of your letter</sup> ~~earlier copy~~ addressees.

~~W~~ SCHOLAR W F S RUCKETT



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MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~938 7022~~ 218 2111/3

MO 8

27th October 1981

*Dear Michael,*

FINANCIAL MANAGEMENT IN THE MINISTRY OF DEFENCE

Mr Nott has seen Clive Whitmore's letter of 21st September conveying the Prime Minister's comments on his minute of 14th September and the draft document for publication enclosed with it.

The Prime Minister asked for two points to be considered before the text of the document is put in final form. My Secretary of State notes the Prime Minister's view that it would be worth including in the last few paragraphs of the text an indication of when Ministers expect to take decisions on the more detailed recommendations of the Study. He agrees with this. Paragraph 42 will now indicate the Department's intention to review progress and, where appropriate, take decisions on these recommendations by January 1982. We cannot at this stage guarantee to have decided our position on all the recommendations by that date, since at least one (that relating to the insertion of new clauses into contracts) will require extensive (and possibly protracted) discussions with industry. But overall we are nevertheless making progress. Two of the detailed recommendations (those relating to monitoring outstanding contract liability and the institution of a new analytical unit) have already been accepted and are now being given practical effect.

Mr Nott has noted the Prime Minister's observations upon the report's recommendation that responsibility for observing the cash limit on the Ministry's equipment procurement Vote (Vote 2) and controlling expenditure to achieve this should be placed on Systems Controllers. He has asked me to point out that he is indeed "enthusiastic" about placing a responsibility for cash control down to the lowest realistic level - and this has already been done. The point is that he does not think it would be right to accept the report's recommendation in the way it has been stated. As he sees it, the object of taking weight off the shoulders of the Chief of Defence Procurement has been achieved by the new arrangements for making cash allocations to managers below the level of Controller, and he attaches great importance to this. The Vote managers answer to the Chief of Defence Procurement through the Controllers, to whom the Chief of Defence Procurement looks to supervise the actions of Vote managers and the control of cash in their areas of responsibility. These arrangements have been reinforced and put on a more formal footing by the Chief of Defence Procurement this year.

M Scholar Esq

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Mr Nott has, however, asked that the reference to this issue in the open government document should be made rather clearer - as it is apparent that it could lead to a misunderstanding of the new arrangements. I enclose a copy of the revised version of the relevant paragraph (paragraph 40) and of two other paragraphs (paragraph 42 and 43) where changes have been made (and are indicated by underlining).

Mr Nott very much welcomes the Prime Minister's remarks about greater flexibility between years.

We will try to avoid the word "Controllerate".

Copies of this letter go to the recipients of Clive's.

*Yours sincerely  
Nick Evans*

(N H R EVANS)

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40. A number of changes have been made in these directions. Managers have been notified of their cash allocations in 1981/82 and told of their responsibility to monitor and control cash against them. Although central management of the defence budget will still allow one area to help out another in the event of difficulty, the onus is now more clearly on managers to keep their expenditure within allocations without assuming relief from elsewhere. The working of these arrangements will be kept under review. But at this stage it is not proposed to place on Systems Controllers, as recommended in the Report, a more formal responsibility for observing the cash limit on the Defence Procurement Vote, Vote 2. Cash allocations have been made in Vote 2 as in other Votes, and here as elsewhere managers at all levels will be required to keep expenditure within allocations and initiate corrective action when this is necessary. Responsibility for keeping total expenditure on the Vote within the cash limit rests with the Chief of Defence Procurement as Accounting Officer for Vote 2. He will nevertheless continue to look to the Systems Controllers for authoritative advice on the forecasting and control of expenditure in their areas of responsibility; and arrangements for regular consultation with Controllers on each forecast of outturn have been instituted by the Chief of Defence Procurement for 1981/82. Throughout the defence budget it is intended to consolidate and develop the devolution to managers of responsibility to control expenditure within cash allocations. At present responsibility rests at different levels in the Department. The plan will be to devolve it as far as practicable. Experience in the current year will help to show how far the process can sensibly be carried.



42. The more detailed recommendations of the study (4-8) relate to the means of achieving these broader objectives. They are being evaluated in detail and some decisions have been taken. We intend to review progress and take further decisions as appropriate in January 1982. The Department has reservations about the scope for identifying and activating savings and addback opportunities within the financial year. (Recommendation 4) It is clearly part of good management to identify and exploit this kind of flexibility as much as possible. But there are problems about the lead time before new commitments produce new expenditure and about knock-on effects in later years; and addback exercises by their nature are not conducive to tight control and discipline. There is a point beyond which flexibility between years in cash rather than purchase of commodities makes better sense. A study is being made of computer support for systems controllerates (Recommendation 6) and of the profiling of expenditure (Recommendation 5). Recommendations 7 and 8 have been generally accepted and a new control unit is now being established broadly to carry out the tasks identified in the Report. More use is being made of statistical assistance in analysing expenditure trends and guidance on industrial performance and capacity and on current and forecast economic activity is being made available as a background to the preparation of Estimates. Work flowing from these recommendations, notably the profiling of expenditure could call for much increased staff effort. The limit of what can be done within available staff resources is likely to make choice between priorities unavoidable. Some existing activities may have to be given up if we are to move quickly in the directions recommended by the report.



43. The report proposed one set of additional instruments of direct control of expenditure (as opposed to improvements in arrangements for estimating and monitoring). This is the new contractual conditions summarised in Recommendation 9. Consideration is being given to the case for specifying earliest acceptable delivery dates in contracts, and how best to introduce contractual procedures which will give the department tighter control over the time of delivery of goods and the rate of contractors' billing. Controlling cash flow within strict cash limits in a way which will not inhibit the search for maximum value for money is a difficult challenge, and the Department will continue to search for new methods of control which will serve both these objectives.



27 OCT 1981

