

Prime Minister

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The Treasury are content, does this meet with your approval?



MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1 (For TPL)  
Telephone 01-~~5207622~~ 218 2111/3  
NA Mitchell Duty Clerk 2/11/80

MO 8/2/12/1

Agree the reply

30th October 1980

with one comment - namely -

do we need to specify the "essential operational activities"? If so they must be chosen very carefully. Northern Ireland in an obvious one

Dear Tim,

DEFENCE EXPENDITURE 1980/81:  
CONTRACTS MORATORIUM

but in the second example the best or the only one of importance?

In his minute of 23rd October to the Prime Minister my Secretary of State explained that it would be necessary for us to exercise the severest restraint on new defence commitments for the rest of the financial year. The three month period of the current moratorium expires on 8th November, and my Secretary of State must, therefore, announce very soon what will follow it. My Secretary of State proposes to do this by written answer on Monday 3rd November. I attach a copy of the Answer which he would propose to give. At the same time, we will write to leading industrialists and to representatives of the Employers and Trade Associations with whom we have been discussing the problems encountered this year in regulating the flow of payments from this Ministry to industry.

I am copying this letter and enclosure to Terry Mathews (HM Treasury), Ian Ellison (Department of Industry), Stuart Hampson (Department of Trade), Richard Dykes (Department of Employment), Richard Prescott (Paymaster General's Office) and David Wright (Cabinet Office).

Yours ever,

David Omand

(D B OMAND)

T P Lankester Esq

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DRAFT

WRITTEN ANSWER ON THE MORATORIUM

The three month moratorium on new defence contracts will end on 8th November.

The moratorium was imposed in order to hold down the rate at which Ministry of Defence entered into new commitments at a time when payments by the Ministry to industry have been running at an unexpectedly high rate.

A number of factors have contributed to the high rate of cash flow on defence contracts so far this year: the sharp change in the economic environment and a shortage of commercial orders have led to faster than expected progress with some defence contracts; industrial overheads have risen and are being reflected in defence bills, some firms are billing faster than normally to improve their cash flow; and the costs of defence equipment have risen faster than expected. The need for urgent action to control costs meant that the moratorium had to be imposed across the board, and the scope for taking account of the circumstances surrounding individual contracts has inevitably been limited, although certain exemptions have been allowed during the period of the moratorium. Essential operational activities, for example in Northern Ireland and the Naval patrol in the Gulf area, have not been affected.

The financial pressures will continue during the remainder of this financial year. The need for strict restraint in defence expenditure including stringent discipline on new commitments therefore remains. But the extension of the moratorium, which I recognise has caused acute difficulties for industry, would not be an appropriate way in which to exercise longer term control. I have therefore instructed my officials in maintaining the necessary restraint to pay particular attention to the industrial, as well as the operational and other, implications.

My Ministerial colleagues in the Ministry of Defence and I will be keeping the working of these arrangements under the closest supervision and the Ministry remains ready to discuss their detailed application with industry. Our aim is to ensure that the purchasing procedures of the Ministry of Defence remain in step with the changing nature of the economic circumstances facing both the Department and our suppliers.