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 Prime Minister (2)
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PRIME MINISTERDEFENCE EXPENDITURE 1982/83

My colleagues will wish to know how our cash control reforms are proceeding in the Ministry of Defence with particular reference to their likely impact on our suppliers in 1982/83. In my paper to OD on 27th January (OD(82)3) I argued for more flexibility in the cash limit system and I pointed out the problems of containing a long lead programme of £6.0bn within a precise annual cash limit given the vagaries of the economy and the immense complexity of the programmes themselves. The Cabinet will be considering this subject shortly. But in the meantime I should explain the further action which we have taken with the defence suppliers.

2. I am basing discussions with the defence equipment suppliers on the system of "cash profiles" which has been developed successfully over the past year. The profiles are global forecasts by each contractor of the cash demands they are likely to make on our Liverpool bill payment office during the course of the year. Thirty-nine of our main suppliers submit these profiles, which cover some £3.2bn of our equipment expenditure. In the current year they have proved to be a valuable cross check upon the Department's internal forecasts of cash flow and, in addition, a very effective means of engaging our suppliers in detailed discussion about ways of reducing the cash flow problems associated with recession which we have encountered in our equipment programme.

3. In 1982/83 I plan to develop further the use of these profiles. Profiles for 1982/83 are now being sent in by industry. During the next month the Department will be analysing and assessing them against the level of business we can afford within the defence cash limit. When our latest cash flow forecasts are available, we shall have as good a measure as we can expect before the year begins of



the cash flow prospect for 1982/83 and we shall be ready to discuss with individual suppliers, on the basis of their own figurework and our analyses, whatever problems are apparent and what corrective action should be taken. If, as I envisage, these discussions take place in May and June, we shall be engaging industry in these matters at a significantly earlier stage than we were able to do in the current year.

4. My officials have had several meetings with the Trade Associations representing the main defence equipment suppliers over the past year and have explained this approach. I cannot yet measure precisely the effect of these further steps. But I am confident that the message about the need to contain expenditure within cash limits overriding in many cases contractual commitments entered into several years ago, has got across to industry and that there will be a readiness on the part of our main suppliers to co-operate in solving difficulties as indeed there has been this past year. But I would emphasise that this new system is not - and cannot be - an exact science which is why it must be complemented by a proper system for allowing flexibility between years.

5. I shall report further to the Committee if further development requires it.

6. I am sending copies of this minute to the members of OD and to Sir Robert Armstrong.

SN

Ministry of Defence
15th March 1982



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