

PRIME MINISTER

DEFENCE ESTIMATES 1984

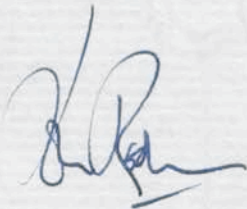
The proposed Defence Estimates represent a clear statement of current defence policy, and show Michael's determination to come to grips with the management problems.

David Pascall and I have read through them, and would like to raise just a few points.

1. Paragraph 203 says that the provision for 1986/87 "should allow for some real growth". The agreed policy is to set a cash limit for future years which may or may not allow real growth, depending on the level of inflation. It would be better to stick to the agreed policy and point out that there is a cash limit for 1986/87 4 per cent higher than for the previous year. The halving in the USSR's real rate of growth in defence spending could also be pointed out here as well as later on in the paper.
2. In paragraph 207, reference is made to continuous increases in the sophistication of weapons, and therefore in their cost. There is no compensating reference to the possibility that technological progress can reduce cost by, eg, reducing the number of weapons systems required to deliver a particular strike. Nor does it point out that the main reason for increasing defence expenditure is the growth in the threat.
3. In paragraph 223, it is rightly argued that there should be some transfer of army manpower from support to front-line troops. One of the ways of achieving this, by contracting-out functions to civilian firms, does not permit an equal number of jobs in the front line to replace those farmed out. Only the cash savings from contracting-out can be reapplied on front-line troops. The overall genuine manpower reduction targets are modest, bearing in mind privatisation of ROFs. (Para. 233)
4. Paragraphs 231-232. It is important to stress the need to maintain momentum on better purchasing and more effective means of carrying out support services. There is still enormous scope for improved purchasing and competitive tendering for a range of activities within the defence area. Contractor margins remain very generous and companies carry little risk.



5. Paragraphs 236-237. Only 20 per cent of the contracts awarded in 1982/83 followed competitive tender. It is imperative that this percentage be increased, as paragraph 237 suggests. Paragraph 236 is too pessimistic in its tone about the scope for competition, even within the United Kingdom. There are several leading suppliers, and new ones can enter the market given half a chance.
6. The passage on warship design and procurement skates over the cost escalation and difficulties in the design for the Type-23 frigate. The paper on naval ship purchasing should address the question of alternative designs (as paragraph 436 does indecisively) and stress the need to control costs of the Type-23. If the additional support vessels to take helicopters which the Type-23 cannot carry, and the cost/design escalation, are taken into account, savings are already disappearing fast compared with Type-22s. Has the Navy thought through the precise requirement and reached the correct design answer? It is not clear from this paper.



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