

MR COLES

11 April 1984

VALUE FOR MONEY IN DEFENCE PROCUREMENT

Since the report on Essential Defence Technologies was completed at the end of last year, the Secretary of State has launched a number of very welcome initiatives to improve value for money in defence procurement. These include:

- measures to promote competitiveness in the UK defence industries. It has been noticeable at recent meetings of the Defence Equipment Policy Committee (DEPC) that the official machine is making every effort to respond to Ministers' wishes;
- a review of the procurement process and the role of the Procurement Executive. This review will be chaired by Peter Levene, the Secretary of State's industrial adviser. Any proposed changes will be incorporated into the major reorganisation of the Ministry of Defence which Michael Heseltine has recently announced.

These measures concentrate on the organisation and management of procurement and on improving competitiveness within the UK contractors. As such they are complementary to the further areas of work which we have proposed as a follow-up to the Essential Defence Technologies report. A summary of our comments on the report is attached.

This further work:

- the strengths and weaknesses of our defence industries and technologies in terms of international competitiveness;
- the scope for adopting a more open system of equipment procurement for non-essential technologies;
- the scope for achieving greater standardisation and collaboration within NATO.

is intended to build on the small but important step of defining those areas in which an indigenous capability is essential.

The proposed issues should be tackled in order. If we had a clearer idea of where our defence industrial strengths lie, it would be easier to assess the industrial implications of individual procurement decisions.

For example, British Aerospace could well have been overloaded if they had been awarded the sea-launched Sea Eagle project as well as the vertically launched Sea Wolf and ALARM contracts. Yet each of these decisions was considered largely independently of the others with little attempt to optimise industrial loadings and technological strengths.

Competitive pressures and a move away from a preferred sourcing policy should lead to some rationalisation of defence industries. This could well apply to two of the four divisions of the Royal Ordnance Factories - Explosives and Heavy Vehicles.

Similarly, we do not want to rule out overseas suppliers who might offer better value for money but we need to be clearer about the scope for moving in this direction. Overseas competition will need to be used judiciously to encourage our industries to become more competitive and to promote greater export and collaborative opportunities for our own industries. It was noticeable at a recent Defence Equipment Policy Committee (DEPC) meeting, that the Committee had great difficulty in deciding whether international tenders were politically and industrially acceptable for a new fleet support ship.

On collaboration, the Secretary of State has recently taken over the Chairmanship of the NATO Eurogroup and is keen to make progress. Two major projects - the future European Fighter aircraft and a feasibility study for a future NATO frigate - are being considered. The timing is therefore opportune to take a closer look at some of the defence, industrial and political implications of such projects.

Recommendations

We suggest that the Prime Minister could congratulate Michael Heseltine on his initiatives and discuss with him whether a small and flexible team under MoD Chairmanship and including representatives from the Policy Unit and relevant departments is likely to make a positive contribution to the further work proposed.

This approach would have the advantages of giving outsiders the opportunity to question MoD conventional wisdom and to relate MoD's industrial policy to our other industrial and economic policy objectives.

To ensure that the work does not suffer the usual disadvantage of interdepartmental groups and concentrates on practical proposals which will help future procurement decisions, we consider that Geoffrey Pattie would be a suitable Chairman.

We need a clearer idea of where Britain's best interests lie and how value for money in the defence equipment budget could be improved. The potential prize is significant and merits an attempt to tackle some of the questions which have made recent procurement decisions so difficult.

D.P.

DAVID PASCALL

ESSENTIAL DEFENCE TECHNOLOGIES

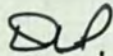
The report on Essential Defence Technologies sets out a short and clearly defined list of those areas in which an indigenous capability is essential for defence purposes. This is an important statement for future procurement decisions.

Michael Heseltine's response is too dismissive. The political and industrial considerations are important but procurement can only be better informed against a considered judgement of what is strictly essential.

The Secretary of State points out that the list excludes virtually all the main systems and sub-systems for our maritime, land and air defence roles. However, this does not mean that we should rely on our allies for the future supply of our ships, submarines, aircraft, tanks and their associated systems. It does mean that we can now consider the wider industrial and political aspects of procurement decisions in the context of commercial rather than strategic criteria.

None of this undermines the importance of our defence equipment industries. But we must ensure that our industries are, or become, internationally competitive. It is in the interests of our Forces and the national economy that we achieve the best value for money from defence procurement. We should recognise that we cannot realistically expect to be successful in all areas. As with other industrial sectors, our general approach should be to allow the market greater scope to identify and encourage our successful defence industries.

However, any moves to a more open system of procurement in certain sections, particularly those where economies of scale limit the scope for national competition, should also be designed to encourage greater export and collaborative opportunities for our own industries.


DAVID PASCALL

PRIME MINISTER

Your meeting with the Defence Secretary

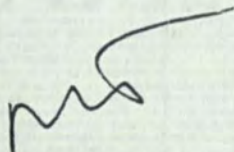
This has been long postponed.

The issues for discussion are set out in Mr Pascall's minute attached. The essential point is:

- should a small team be established under MOD (Geoffrey Pattie?) chairmanship, with representatives from the Policy Unit and relevant departments, to discuss the issues listed at the bottom of page one of Mr Pascall's minute.

I have also put in your folder a paper, which the MOD produced, in response to your request about competitiveness in the UK defence industry.

A.J.C.



11 April 1984

D. R.

MR. COLES

✓ A.S.C. 2/3.

MR. REDWOOD

I have re-arranged the Defence Procurement Meeting with the Secretary of State for Defence to take place after Cabinet on Thursday, 12 April. This was the first date that both the Prime Minister and Michael Heseltine could manage.

CR

26 March, 1984.

B. R.

MR. COLES

m 3/3

c. Mr. Redwood

The Secretary of State for Defence's office rang to say that they wanted to postpone the defence procurement meeting until Monday, 26 March. I have therefore arranged the meeting for that Monday at 1030.

CR

2 March 1983

bc AT
Mr. Redwood

JP

10 DOWNING STREET

From the Private Secretary

6 January 1984

As you know (my letter of 14 December), the Prime Minister told the Secretary of State for Defence when they met on 14 December that she was looking forward to seeing the paper on indigenous technologies in defence, in which Cabinet expressed an interest on 28 July. It would be helpful to know when the paper is likely to be available.

Another matter which was discussed at the meeting on 14 December was the question of competitiveness in the UK defence industry. The Prime Minister would be grateful if she could see a paper as soon as possible describing the steps which are being taken to promote competitiveness.

ATC

Richard Mottram, Esq.,
Ministry of Defence.

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