

Prime Minister:

The Rayner Unit comments are at flag A. Should I respond on your behalf as proposed by Mr Priestley?

*D*

19/11



*6/8*  
*see type*  
*C Priestley*  
*draft attached*  
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MO 24

PRIME MINISTER

FINANCIAL MANAGEMENT IN THE MINISTRY OF DEFENCE

Francis Pym informed you, on 31 December 1980, that the Ministry of Defence had commissioned two studies on financial management, one on financial control procedures and the other on financial responsibility and accountability. I have already reported the outcome of the first study, on 14 September 1981, and I think it would now be appropriate to let you know the current position on the second study.

2. This latter study was undertaken by a team headed by a Ministry of Defence Assistant Secretary and including representatives of the Treasury and of the firm of Arthur Andersen. As you specifically requested, Sir Derek Rayner has been associated with the study and his advice has been of great value.

3. The study team carried out a very thorough analysis of many aspects of financial management in the Ministry of Defence. Their recommendations are wide-ranging but are basically aimed at improving financial control and clarifying financial responsibilities and lines of accountability. The concept of personal accountability figures prominently and is reflected in proposals for the issue of individual charters. The study team identify as a major weakness "the unsuitability of the present system for measuring and controlling the cost of activities," particularly in such areas as Service training, supply and repair. This leads on to the most important proposal in the report which is the introduction of responsibility budgets. Under these arrangements a line manager would accept responsibility for achieving agreed performance targets within an annual financial budget. The cost information required would be provided by a new management accounting system (the ABC system) which we are already in the process of introducing. The study team



propose that responsibility budgets should initially be adopted in the fields of logistic support and Service training but consider that in the longer term the coverage of the system should be much more comprehensive.

4. The report is a valuable document which has obvious relevance to the financial management initiative. It will naturally take some time to consider all its 48 recommendations but the detailed processing is now well in hand and both the Treasury and the MPO have been consulted. In this follow-up work we are giving a particularly high priority to the responsibility budget proposals and have already decided to put in hand a number of trials with the object of assessing their value, practicability and resource implications. Once these trials have been completed it will be possible to take informed decisions on this important issue.

5. I have been giving very careful consideration to the question of publication. I have concluded that it would be preferable to publish the report now rather than wait until decisions have been taken on all its recommendations. I have also decided that it should be published in full, subject only to some very minor editing, and with a brief accompanying note which will indicate that we are going ahead with responsibility budget trials. Copies of this slightly edited version will shortly be placed in the House of Commons' and House of Lords' Libraries and will be sent to the Select Committee on Defence, the Public Accounts Committee and the House of Lords All Party Defence Study Group. In addition, we shall be depositing a number of copies in the Ministry of Defence Library with the intention that anyone interested will be allowed access.

6. I am sending copies of this minute to Geoffrey Howe, Francis Pym, Michael Heseltine, Leon Brittan and Janet Young. Copies also go to Sir Derek Rayner and Sir Robert Armstrong.

JN



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17 NOV 1982

COMMUNICATIONS



Govt. Mach

10 DOWNING STREET

From the Private Secretary

22 November 1982

Dear Richard,

FINANCIAL MANAGEMENT IN THE MINISTRY OF DEFENCE

The Prime Minister was grateful for the report by your Secretary of State on the second Reeves study, on financial responsibility and accountability. She strongly endorses the study's emphasis on personal accountability (to which the report draws attention) and the need to develop a suitable system for measuring and controlling the cost of activities.

The Prime Minister is pleased that your Ministry is giving a particularly high priority to the study's proposals for responsibility budgets and that a number of trials have been put in hand. The results of the trials should be of particular interest to other departments and Mrs. Thatcher hopes that an opportunity will be found to associate the central departments with the trials so that the results of your experience may be disseminated as widely as possible.

bf  
The Prime Minister would be glad to be informed in due course what is being done (perhaps in the way of detailed scrutinies) to correct the weaknesses identified in the particular areas of Service training, supply and repair.

Mrs. Thatcher fully supports the decision by your Secretary of State to publish a slightly edited version of the report as soon as possible. She believes its publication will provide strong evidence of the Ministry's (and the Government's) seriousness of intent in improving financial management through laying clear responsibility for resources on individuals.

I am copying this to the Private Secretaries to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Secretary of State for the Environment, the Chief Secretary and the Lord Privy Seal, and also to Sir Derek Rayner and Sir Robert Armstrong.

Yours ever,

Tim Fisher

Richard Mottram, Esq.,  
Ministry of Defence.

Mr FLESHER



A

FINANCIAL MANAGEMENT IN THE MINISTRY OF DEFENCE

1. I attach a draft minute for you to send to Mr Nott's private secretary in response to his minute (reference MO 24) to the Prime Minister, which was copied to Sir Derek Rayner. *with TF?*

2. I have the impression that the implementation of the Reeves II recommendations is well in hand, as the minute claims, despite the complexity of the issues, but Sir Derek will be concerned that the momentum should continue. Both the Treasury and I have written to the MOD's PFO to encourage him in the process of implementation.

*Moubert*

P.P. C PRIESTLEY  
18 November 1982

Enc

DRAFT MINUTE FROM PS/PRIME MINISTER

PS/SECRETARY OF STATE FOR DEFENCE

FINANCIAL MANAGEMENT IN THE MINISTRY OF DEFENCE

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*Amend mt*

Govt Mach, Rayner, #13

18 NOV 1982

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