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PRIME MINISTER

Visit to the Ministry of Defence

Sir Derek Rayner is coming to see you at 1130 tomorrow morning to discuss with you your visit on Friday to the Ministry of Defence. The attached folder contains the following papers:-

- 1) The detailed programme for Friday's visit (Flag A)
- 2) Sir Derek Rayner's brief for the visit (Flag B)
- 3) A brief by the CSD (Flag C)
- 4) A letter from the Defence Secretary to Lord Soames about civilian manpower cuts and Civil Service morale (Flag D)
- 5) Mr. Channon's reply to Mr. Pym, which you have not seen before (Flag E).

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I do not wish to add unduly to the weight of paper on Friday's visit, but there are one or two points I should like to make briefly. The centrepiece of Friday's visit will be the discussion with Mr. Pym, Sir Frank Cooper and the Chiefs of Staff on the way defence resources are allocated. The Defence Departments were brought together under one roof in 1964 but, despite numerous attempts, no rational and objective way of deciding how to allot the funds available to defence between the three Services has yet been devised. Each Service fights its own corner to get out of the defence budget as much as it can. In practice what happens each year is that the figure for the defence budget which is agreed collectively by Ministers is carved up between the three Services in very much the same proportions as the allocation for the previous year. There is no attempt made centrally to decide what our priorities should be as between the major capabilities within the defence programme, e.g. should we be investing greater effort in our armoured capability in central Europe and less in

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/anti-submarine

anti-submarine warfare or vice versa. The MOD is stuck in a historical groove and does not know how - and perhaps does not want - to get out of it.

What preserves the present mould within which the business of resource allocation in the MOD is done is the strength of the three Services which still retain, in many areas, an organisation of their own within the Department as a whole: the MOD is in effect still a federal and not a truly integrated department, consisting of three Service Departments, with a central, tri-Service staff imposed on top of them. This unsatisfactory form of organisation is exemplified by the Chiefs of Staff Committee where the three single Service Chiefs are always ready to form a coalition to preserve their Service interest against any attempt by the central staff, as represented by the CDS, to try and look at matters from the point of view of defence as a whole rather than in terms of the interests of the individual Services. No CDS has ever had either the organisational authority or the power of personality to force the Chiefs of Staff Committee to try to consider problems, and in particular resource allocation, on an across-the-board basis. I am quite clear that we shall solve this problem only if we have a Secretary of State who is clearly determined that the allocation of the defence budget between the competing demands of the various parts of the defence programme should be done on a rational, defence-wide basis. And he will be able to achieve that only if he reorganises the Ministry of Defence in a way which integrates the Department much more on a tri-Service basis and reduces the size and power of the single Service Departments. A reorganisation of this kind should have the additional advantage of achieving considerable staff savings.

These problems lie very close to the surface in the Ministry of Defence, and you should have little difficulty in exposing them on Friday.

TWJ .

2 January 1980