

Mr Whitmore

Any comments on the draft at C
before it is typed for your signature?

LM
27/1

PRIME MINISTER

The Efficiency Strategy 1982: The Ministry of Defence

We have a slight problem with the Ministry of Defence over the scrutiny programme for this year.

Mr. Nott has offered (see his minute at Flag A):

- (a) to carry out scrutinies of the MOD's arrangements for dealing with Service and civilian pensions, and of the arrangements for the issue of Service pay.
- (b) To contribute to the programme of central reviews of the control of running costs in large executive units ("Resource Control Reviews") by offering reviews of RAF support and of the Meteorological Office.

Janet Young and Derek Rayner are well content with these proposals as far as they go. But both are very disappointed that Mr. Nott has been unable to offer a larger contribution to the Resource Control Reviews (see Janet Young's minute at Flag B). They hope that you will feel able to ask Mr. Nott to consider extending the resource control reviews in his Department into the areas of army and navy support. Sir Derek Rayner's Office suggest that Clive Whitmore should write to Mr. Nott's Office as at Flag C. Agree that Clive should write as drafted?

WR

Yes - ~~not~~

but leave for the
time being
not.

26 January 1982

CONFIDENTIAL

Mr Rickett ✓

Wm
4/2



THE EFFICIENCY STRATEGY 1982: MINISTRY OF DEFENCE

This minute offers advice on those to the Prime Minister from the Secretary of State for Defence and the Chancellor of the Duchy of Lancaster of 15 and 25 January respectively and suggests a draft letter to Mr Omand (MOD).

BACKGROUND

2. The CDL's minute correctly recalls that her memorandum to the Prime Minister of 17 November last put MOD down for a substantial contribution to this year's programme of co-ordinated reviews of "resource control". (These reviews are most readily recognised, by the way, as reviews of how large, self-contained executive units are managed; other participants include the Prison and Coastguard Services.) The CDL's exact words were: "Defence (2)+ a small unit, possibly the Meteorological Office".

3. Mr Nott's letter to Lady Young of 26 November, copied to the PM, said that he was "entirely content with your plan subject to the details being settled in discussion with my department".

4. Thence arises much embarrassment for MOD officials. Apart from the quite acceptable offerings now made by Mr Nott (ie 2 scrutinies, of aspects of HM Forces and civilian pay and pension arrangements, and 2 resource control reviews, of RAF support command and the Meteorological Office), officials up to and including the Permanent Secretaries wanted Mr Nott to include in his minute resource control reviews of training in the Royal Navy and the Army. Officials believed that a resource control review, based heavily on the scrutiny technique, would have a cutting edge in such military areas which had so far remained resistant to thorough-going analysis.



5. Mr Nott's reaction, in which he remained firm, despite at least two applications of top-level blandishment (observed by us from afar with an acute sence of its irony, see below), is captured in para. 3 of his minute of 15 January. It is to a degree commendable and sympathetic: he is the Minister in charge of his department and he doesn't want people with far smaller responsibilities (MPO, Rayner et al) telling him how to do it. (Indeed, resistance to outsiders now appears to be a strongly marked feature of MOD management.)

6. Before I offer a draft reply to MOD, perhaps I might briefly recall their record in the scrutiny programme so far.

MOD RECORD

7. In one respect, this is quite respectable. MOD has so far undertaken 11 departmental scrutinies and taken part, with initial reluctance but thereafter with growing disbelief and embarrassment, in the Government-wide review of supporting services for R&D, now nearing completion. (Lady Young's minute of 25 January refers, at para. 4.) I attach a summary of these 12 exercises.

8. The record shows that, on the whole, MOD have taken a less self-critical look at themselves than DHSS, another big spender who have served us well. They have succeeded in keeping us away from large areas in which they would (naturally) prefer to wash their dirty linen in private. This is partly due also to the facts that MOD have undertaken numerous difficult exercises on their own and that it is not easy to get into areas directly under military management, especially so where the military's love of doing everything in threes might fear the intention to rationalise. To an important degree, therefore, Sir Frank Cooper has very sensibly used the scrutiny programme to edge his way into areas where his rule, as the civil head of MOD, does not easily run. Hence, too, the consternation of officials that, having almost buttoned Army

and Navy training into this year's programme, their Secretary of State has freed them from what promised to be a stringent, but fair exercise.

SUGGESTED REPLY

9. I think that some play can be made with the agreement of last November, but I would not overdo it. The better course is probably to try and persuade Mr Nott to include something else in the programme because all will benefit from it. This is the line taken by the attached draft which I think ought to go over Mr Whitmore's signature, and with which the Treasury (at my level) is content.

10. I need not say, I am sure, but will do so for the record, that it is essential that none of the information contained in paras. 4 and 5 above should get back to Mr Nott.

C

C PRIESTLEY
26 January 1982

SUMMARY OF MOD SCRUTINIES etc

<u>Year</u>	<u>Subject</u>	<u>Savings</u>	<u>Comments</u>
1979	Supply of food to HM Forces	£0.3m pa + £3.5m once for all	Decision not yet taken on whether food supply should be transferred to NAAFI.
1980	The Claims Commission	£1.98m pa 79 posts	Net cost in years 1 & 2 Break even in year 3 Savings of £1m in year 4 Building up subsequently
	Secondary education overseas	£2.73m 228 posts (once for all cost of £0.23m)	To be achieved by 1983
	Economy in major new building works	-	A "systems/method" review.
	Inspection and audit	£1.35m pa 96 posts	New "Directorate-General of Management Audit", praised by PM
	Assisted travel schemes	£1.2m pa	-
1981	Defence Sales Organisation	-	In progress: we are struggling to keep this in the scrutiny programme
	Financial control	-	A "systems/method" review
	Group travel on duty by HM Forces personnel	Not quantifiable	
	Defence Telecommunications		In progress
	Dissemination of information		- do -
1981	Government-wide review of R&D Supporting Services	£8.7m pa 1070 posts	MOD said at outset that this exercise was not needed
1982	HM Forces and Civilian pension arrangements		Scrutiny
	HM Forces pay: arrangements for issue		Scrutiny
	RAF Support Command and individual training		Resource control review
	Meteorological Office		- do -

D Omand Esq
Private Secretary to
the Secretary of State for Defence

THE EFFICIENCY STRATEGY 1982

1. The Prime Minister was grateful for your Secretary of State's minute of 15 January, which she read with considerable sympathy.
2. The Prime Minister is ^{happy} well content with Mr Nott's proposal that there should be scrutines this year of your Ministry's arrangements for dealing with Service and civilian pensions and for the issue of Service pay. She thinks that these are both good subjects, well worth doing, which may turn out to have important implications for other aspects of Services management; she would like to be informed later whether this proves to be the case. She will be asking Sir Derek Rayner to take a particular interest in them both on her behalf.
3. The Prime Minister is also pleased with the proposals that RAF Support Command and individual training associated with it and the Meteorological Office should be included in the programme of Resource Control Reviews. She thinks both subjects excellent and looks forward to meeting the examining officers at the presentation on 24 February.
4. ~~The Prime Minister has made two other comments.~~
First, she noted your Secretary of State's reference to his

new Directorate-General of Management Audit, whose establishment last year she very much welcomed. She thinks that the Civil Service as a whole has much to learn from the work of the new Directorate and she hopes that opportunities for this can be provided from time to time.

However,

5. ~~Secondly~~, the Prime Minister thinks that - not least because your Ministry is now well on the way to being better equipped for the intensive examination of costly areas of work - there is much to be said for including one or two more expensive Service commands or functions in the Resource Control Review.

6. Mrs Thatcher thinks that this would accord with your Secretary of State's warm response to the Chancellor of the Duchy of Lancaster's minute to her of last November. She, also thinks that there would be a very real advantage, to the Government as a whole and to your Ministry, in extending the Resource Control Review to Army and Navy functions of a nature and size commensurate with those of RAF Support Command. This is because Defence expenditure accounts for such a large proportion of Government spending as a whole and because, being in the public eye on that account, it is especially desirable for Ministers to show that they are taking - in your Secretary of State's words - a "no holds barred" approach to related or comparable blocks of expenditure.

The P - M - therefore hopes ^{very much} that your S - of - S - can agree to including extending the resource control review in this way.

7. I am copying this letter to John Kerr (HM Treasury),
Jim Buckley (MPO), David Wright and Clive Priestley (CO).

C A WHITMORE



I have spoken to John Kerr to explain why we are not pressing on Nott at this stage. WM 5/2

Govt Mach

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

THE EFFICIENCY STRATEGY 1982: MINISTRY OF DEFENCE

I have seen Jerry Wiggin's letter of 18 December, John Nott's minute of 15 January, and Janet Young's minute of 25 January. My own view on the Ministry of Defence proposals for scrutinies this year is very similar to Janet's. The review of Defence R & D support services is proving very valuable, and I would not think it unreasonable that John Nott should be asked to apply similar techniques this year to at least one area of army or navy support. I suspect that the fairly fundamental questioning of the need to continue to carry out all current tasks, which is a feature of the technique, and the involvement of the central Departments, is more likely to bring results than the traditional internal reviews of complementing etc. which John Nott describes. Copies of this minute go to Janet Young and Derek Rayner.

A handwritten signature in black ink, appearing to be 'G.H.' with a flourish.

(G.H.)

5 February 1982

15 FEB 1962



COMPTON



Chancellor of the Duchy of Lancaster

PRIME MINISTER

THE EFFICIENCY STRATEGY 1982 - MINISTRY OF DEFENCE

I think John Nott's minute to you of 15 January does not bring out what could be achieved by a further MOD contribution to the programme of resource control reviews, along the lines envisaged in our efficiency strategy.

He offers reviews of the support area of the Royal Air Force and of the Meteorological Office. Both are well worth doing and the central team for the resource control programme will be in touch with MOD to work up detailed proposals as soon as possible.

But I had counted on at least one other substantial review, for example in the areas of army and navy support which consume a large proportion of MOD's running costs. I had these areas in mind when I proposed in the paper on the efficiency strategy for 1982 circulated on 17 November that MOD should undertake two large resource control reviews in support areas for the services in addition to a smaller one such as the Meteorological Office. John did not dissent from that. The proposal for such a large contribution from MOD took account of the fact that MOD had not been pressed to participate in either of the two other centrally co-ordinated exercises in the 1982 programme (concerning departmental running costs and personnel management).

I am not of course suggesting that MOD would intend to do no work of their own in the areas of army and navy support. But the value added by central participation has been vividly illustrated by experience of the R & D support services review which Sir Derek Rayner is co-ordinating and which provides the model for resource control reviews. MOD were reluctant participants and in the early stages did not believe scope for significant improvement existed. In the event, there are likely to be recommendations for about 1000 staff savings, representing over 15% of the total staff reviewed and, equally important, clear lessons for improved management. I therefore strongly believe that at least one large area of army and/or naval support should be tackled as a resource control review.

CONFIDENTIAL

It would be extremely helpful if an early reply could be sent. There is no time to lose if a suitable study is to be brought successfully into the centrally co-ordinated programme of resource control reviews.

I am sending a copy of this minute to the Chancellor of the Exchequer and Sir Derek Rayner.

Yours truly

BARONESS YOUNG

25 January 1982

CONFIDENTIAL

25 JAN 1968





MO 4/4

PRIME MINISTERTHE EFFICIENCY STRATEGY 1982 - THE SCRUTINY PROGRAMME

You have asked for proposals for the 1982 scrutiny programme. I have been considering this in the light of my own strategy for improving efficiency in defence.

2. Over one third of the MOD civilian employees - of whom there are 223,000 - can now feel that their jobs are already under special study, and in many cases under direct threat given the ambitious targets we have set ourselves for reductions in civilian numbers. In picking subjects for Rayner studies I have therefore focused my attention on areas which have not so far fallen under the spotlight but which are nevertheless significant users of manpower. We employ up to 700 people administering Service and civilian pensions at an annual cost of £7.8m; and up to 3,700 staff administering Service pay and records at an annual cost of £55m. These are areas which should provide scope for rationalisation, greater use of computers and more efficient procedures (details in the customary form are annexed).

3. Your Private Secretary's letter also referred to resource control reviews. Resource control is of course just another name for management - and I have spent my time so far in the Ministry of Defence doing almost nothing else. Shutting three Dockyards, closing training, support and R&D establishments, cutting staff numbers, all in accordance with the defence policy we agreed in the summer, are the best ways I can think of for exercising resource control. I do not want to superimpose a new layer of bureaucracy on top of the work which management here has in hand under my direction and much of which is directed at implementation, since we are past the stage of study.



4. I do understand, however, how important it is that the Government should present a coherent strategy for achieving greater efficiency in the public sector as a whole, and I would certainly have no objection to associating two particular areas of my work with the Chancellor of the Duchy's programme, and renaming them "resource control reviews". These are:

- a. the support area of the Royal Air Force - including RAF Support Command and the individual training associated with it - where I have appointed a team to conduct a 'no holds barred' review of the way we support the RAF front line.
- b. the Meteorological Office which is a self-contained area under my responsibility consuming some £50m a year gross and employing about 3,900 staff. The review will look at all aspects of the way the Met Office does its business and its relations with its customers.

5. Another area where I think we can contribute to the overall strategy is in the new work we are doing on Management Audit where last year, following a Rayner scrutiny, I appointed a Director General to develop this concept as an extension of the existing work of central management services, internal audit and staff inspection. Audit teams will include a range of disciplines and will have the authority to look at all aspects of the parts of the organisation they are examining, including their tasks and the efficiency of their management.

6. I am copying this letter to the Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster; and to Sir Derek Rayner and Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be "JAN".

Ministry of Defence

15th January 1982



SERVICE AND CIVILIAN PENSIONS

SUBJECT

MOD arrangements for dealing with service and civilian pensions.

COST

There are about 400 posts involved in the administration of service pensions and about 290 for civilian pensions, at an annual cost of some £5M and £2.8M respectively.⁽¹⁾ For 1981/82, service pensions are estimated to be some £164M, and civilian pensions some £249M.

REASONS FOR SELECTING THE SUBJECT

Service pensions are the same in each of the services for those of equivalent status and length of service but each Service has its own separate organisations for interpreting pensions policy and assessing individual pension entitlements, with some of the Services using computers for this task more extensively than others. In addition each Service makes its own arrangements for pension payments, with some using the PGO for this more than others. In view of the development of computerised awarding for civilian pensions, and the present collocation of pensions staff dealing with naval ratings, airmen and MOD civilian staff, a review of the arrangements for dealing with all MOD pensions is required to consider the scope for rationalisation and economy in this area.

Some reorganisation is already taking place in the Army area which the study will need to take into account. In particular, the study should assume the transfer to Glasgow in 1982/3 of the Army pension assessment office currently at Stanmore.

TERMS OF REFERENCE

To review the present arrangements within MOD for dealing with service and civilian pensions including policy work, case-work, assessment and payment and to recommend what improvements can be made.

Starting and Finishing Date

Starting date, second half January. Finishing date not yet known but aim to complete within 90 working days.

Examining Officer and Ministerial Reporting Arrangements

Mr M Clarke (Principal) heading Management Services team, reporting through 2nd PUS to the Parliamentary Under Secretary of State for the Armed Forces.

(1) Basic Staff costs plus accommodation and common services.



SERVICE PAY

SUBJECT

The present arrangements for the issue of service pay (excluding pay determination).

COST

There are about 3,700 posts (excluding Headquarters policy posts) involved - about 1,000 on the pay task itself and the remainder on the associated personnel records system at an annual cost of some £54.8M.⁽¹⁾ Service pay for 1981/82 is estimated to be some £2,577M or 21% of the Defence Budget.

REASONS FOR SELECTING THE SUBJECT

Service pay rates are basically the same for each of the Services but each Service has developed its own system for the issue of Service pay using different computer systems both for the basic pay task and for the maintenance of related personnel record systems. This area uses substantial staff resources. A review is required to consider what scope, if any, there is for greater economy in pay arrangements, taking into account the latest developments in computer technology. The review will also need to take into account the different operational environments in which each of the Services operates.

TERMS OF REFERENCE

To review the present arrangements for the issue of service pay and the maintenance for that purpose of related service personnel records and to recommend what improvements can be made. Procedures for the determination of service pay rates are excluded from the review.

STARTING AND FINISHING DATES

To follow Superannuation Study. Preliminary Survey will probably be required to establish more precisely scope of review, size and skills of scrutiny team and timescale of scrutiny.

(1) Basic staff costs plus accommodation and common services.

Examining Officer and Reporting Arrangements

As for Superannuation Study.

W 2/12



MINISTRY OF DEFENCE

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PARLIAMENTARY UNDER-SECRETARY OF STATE
FOR THE ARMED FORCES

D/US of S(AF)/JW/6/1/0

18 December 1981

Sir Derek Rayner
Cabinet Office
70 Whitehall
London
SW1

Dear Derek,
will respond if required

PROPOSED SCRUTINY OF DEFENCE ESTATE MANAGEMENT

On 11 August you wrote to Michael Heseltine with a copy to John Nott, proposing a joint Ministry of Defence/Property Services Agency scrutiny of the management of the defence estate.

I understand that at a meeting of Permanent Secretaries on 21 October you accepted Arthur Hockaday's explanation that in the light of other proposals for 1982 studies we and the Property Services Agency were not proposing to give this one priority, at any rate for 1982. Nevertheless I feel that as the Minister to whom John Nott has assigned the responsibility for ensuring the efficient management of the defence estate as a whole, it would be helpful if I were to summarise the various measures that we are pursuing to this end. Since the Ministry of Defence owns and manages the defence estate, with Property Services Agency acting as our agents on the acquisition, disposal etc of property, and since the costs of acquiring, managing or selling land are charged or credited to the Defence Budget, I think that it probably falls to a Ministry of Defence rather than a Department of the Environment Minister to reply to you.

While the Maintenance Economy Reviews concentrate on individual establishments, Ministry of Defence maintains continuous review of the defence estate against operational requirements and military redeployments. Our recent major defence programme reappraisal will release some assets for disposal in due course. Also, following the recommendations of the Jones/Butler Report to which you refer, we have arranged for land costs and receipts to be charged and credited to the individual Service Long Term Costing Target Headings. This will

provide a very useful incentive to the Services to give up, where they can, land they are not using fully, so that they can spend the money more usefully.

You will gather from all this that the furrow you wished to plough has already been fairly well tilled. Nevertheless, I am conscious that the savings from even a marginal further improvement in the efficiency of estate usage would bring useful aid to a hard-pressed Defence Budget, and I cannot disregard this prospect.

I am sending a copy of this letter to the Prime Minister, Geoffrey Howe, Michael Heseltine and Robert Armstrong.

Yours ever

Jerry

Jerry Wiggin