

I have spoken to Mr Priestley and told him to delay any meeting between Sir Derek and Mr Webb until after the defence Estimates have been published.

cc Sir Derek Rayner

*WM
5/2*

Mr RICKETT

THE EFFICIENCY STRATEGY 1982: MINISTRY OF DEFENCE

1. We had a word this morning about my minute to you of 26 January and the draft letter attached to it from Mr Whitmore to Mr Omand (MOD). I mentioned that Mr Beesley and I were going across to MOD for a personal talk with Sir Frank Cooper and said that I would take counsel with you afterwards on the right way to go ahead. You indicated fairly clearly to me that it would be untimely for such a letter as I have provided to be sent to the SS/Defence for the foreseeable future.

2. Sir FC was accompanied by his private secretary, Mr Webb, but the meeting was essentially a private one, to go through a personal letter I sent him on 21 January about a number of aspects of the efficiency strategy and other matters. I found Sir FC, for the first time in my knowledge of him, looking tired and a good deal older than he seemed only a few weeks ago, before Christmas. However, it is difficult to keep a good man down and after quite a short time much of the old sparkle came back and he seemed more like his old self.

3. As a senior official, Sir FC finds himself, I would think, in a position of almost unique difficulty. The complexity of defence issues is not helped by the rococo matrix organisation of MOD, with its multiplicity of vested interests, its overlapping lines of responsibility and the curious unprofessionalism to be encountered in some importance areas of the fabric. The difficulty of managing his role is not assisted by such personnel problems as the serious illness of the Chief of Defence Procurement (Sir David Cardwell), the impending disappearance of the 2/Permanent Secretary (Sir Arthur Hockaday) into the CWGC and impending changes among the Chiefs of Staff. You will be all too familiar with the political problems - the stupefying exchanges with the Treasury on the Defence budget, the very real problems which stretch ahead on the closure of the Dockyards



(where, as Sir FC said, some decent people are now upset and nothing can be done to assuage/ ^{them} and the particular personality of the present SS/Defence.

4. On the question of a letter on the efficiency strategy, Sir FC's clear advice, which I respect, was that the SS/Defence would almost certainly resist any attempt to dragoon him. He agreed with my suggestion that, in all the circumstances, a softer, face-to-face approach by Sir Derek Rayner might be much more productive. The basic points are that Mr Nott is going to carry out the reviews of Army and Navy training but he fears, and will not accept, formally exposing such areas to outside view. He also thinks, with some justice, that he has been taking some difficult management decisions (the Dockyards being the prime example), for which he should have some credit. Sir FC also thinks that the SS/Defence would prove much more amenable in conversation than he would in responding to a piece of paper which would, however well drafted, have a more threatening aspect.

5. All that being so, I think that the soft pedal is plainly indicated. As it happens, we have a number of other items of business on hand which will necessitate Sir DR writing to Mr Nott and we shall seek an informal interview as being the best means of getting inside the MOD.

6. There is another importance consideration here. Sir DR has long felt that he could be most helpful to the SS/Defence in an informal rather than a formal way. Given all that is going on, and given also our desire to reduce the flow of paper to Sir DR, we shall be seeking opportunities to influence MOD people, whether military or civilian, much more face-to-face this year than in previous years. Other points which it is timely to report on are briefly as follows.



REVIEW OF SUPPORTING SERVICES FOR R&D

7. We are now very nearly at the end of this review which, as I indicated in the attachment to my minute of 26 January, will produce some marked results in MOD. Not least, the examining officers' commentary on management arrangements will march in step with findings from a very important scrutiny from last year, that by Mr Reeves on Financial Accountability in MOD. We had a word with Sir FC about managing the product of the supporting services review to the best effect and find ourselves on all fours.

Scrutiny of financial accountability

8. The Reeves report, the second in a year - the first being on cash control, is a bone-punching critique of certain financial arrangements in MOD. A number of good marks are correctly awarded but Reeves concludes that, in general:

- MOD's financial system is not well designed to reconcile the objectives of control against cash limits and civilian manpower targets and (more widely) of economy and efficiency.
- This is partly a defect of the financial framework and partly a product of the attitude of mind (now less widespread than it was, fortunately) that once policy has been defined the money to implement it will always be found.
- The remedy lies in a form of financial control which requires line managers to manage within a cash allotment for the year set by higher management; measures their performance against a formal target; and gives them as much flexibility as possible to vary the composition of their spending to achieve the most efficient results.

9. The Reeves team has made a series of proposals which, leaving aside the purely technical, focus around a clarification of financial responsibility, from the top downwards; the assignment of responsibilities in a formal way (by "charter" to senior officials); and a system of "responsibility budgets" within each Service.

10. Sir FC would like his Ministers to go public with this report quite soon and wants to get ahead with implementation (eg with pilot schemes for "responsibility budgets") quickly. But, the field being so vast and the institutional, procedural and cultural changes being so substantial, we are here contemplating a very substantial programme of reform, extending a long way into the future. Of course, this is but one of the things which MOD has on hand.

Scrutiny of the Defence Sales Organisation

11. You will recall that this was included in last year's scrutiny programme at the personal wish of the Prime Minister. It took a long time to get going mainly because of the change in the Head of Defence Sales - now Mr James Blyth (43, formerly General Manager at Lucas Aerospace).

12. To cut a long story short this "scrutiny" is now really an internal MOD study with which Sir DR is associated. Sir FC and Mr Blyth had lunch with Sir DR and me before Christmas and we were left in no doubt of the competence of Mr Blyth to get ahead himself. He is being helped by a Principal from MOD and we see no reason, or prospect of success, in trying to badger MOD to go through the correct "scrutiny" hoops. Quite apart from that, there are reasons, centring around Lord Trenchard, which would make it foolish as well as unfair for us to do so. I can report on these orally if you wish.

13. Sir DR told Sir FC and Mr Blyth that he needed to know whether the exercise was in any sense a scrutiny as he would be reporting to the PM fairly early this year on progress with last



year's programme. I suggested, and it was agreed, that in all the circumstances the best course might be to report the PM, whose interest remained steady, by means of a presentation. Mr Blyth impressed us and, if she has not already met him, I think that the PM would find him interesting and impressive too. I think that a presentation is easily the best way to get over the issues as Mr Blyth sees them and the intentions of the Ministry. This idea has been carried forward inside MOD and Sir FC told me that the present intention was to offer Sir DR the presentation first, with a view to getting his advice on substance and style, before it was offered to the PM. I suggested to Sir FC this morning, and he agreed, that it would be right for MOD to take the initiative in offering a presentation to the PM when the time came, which would be quite soon.

Conclusion

14. We shall deal with the question of a formal response to Mr Nott's minute to the Prime Minister of 15 January when we put forward an analysis of the proposals for this year's scrutiny programme as a whole. This should be towards the end of next week.

15. For the rest, I ask you to take note of the state of play between ourselves and MOD. I have absolutely no reason to doubt the good faith of Sir FC, whom I respect, and I think that we should proceed on the basis I have outlined. I am quite sure that we shall help the PM's interest and the public interest better that way than by being too formal.

16. I also ask you to take note of the probability that Defence Ministers will come forward fairly soon with the offer of a presentation on Defence Sales.

17. Finally, I would be grateful if you would show the Prime Minister this minute. But if you think it would try her patience, I think that Mr Whitmore should be aware of it.

C PRIESTLEY

4 February 1982