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22nd December 1983

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Thank you for your letter of 15th November, in which you sought my advice on how my Department would be responding to the Government's efficiency programme.

Clive Whitmore has explained to you the outline of our strategy. The MINIS process has, as you have realised, a central position. It has already helped us to start work on clarifying management's objectives and responsibilities, and to define the need for change. As a result of the early MINIS meetings, I have set out to the Department some basic principles of management which I believe we should be applying to Defence, and am now concerned to see these turned into a programme of action related to the needs and circumstances of my Department, particularly to ensure that resources are applied to best effect in terms of combat effectiveness and deterrent value.

The course we are now charting brings together work on efficiency and on the Financial Management Initiative. Like you, I want to see lasting reforms achieved, especially in financial and personnel management; and I therefore welcome your support. There needs to be a change in the methods and style of management, as much in Defence

Sir Robin Ibbs



as elsewhere, which will require a concerted departmental programme. To help us in our task, I have acquired the services of Peter Levene, Chairman of United Scientific Holdings, as a part-time personal adviser, for the first half of 1984.

As you might imagine, the MOD has in hand at any moment a large programme of efficiency studies of various kinds, much of it at a micro-level geared to individual problems in the Armed Services and in the Ministry. Virtually no area escapes study of some sort. Although valuable in themselves, I believe that greater value is to be obtained from bringing together all this work within a single framework, targetting our effort where it is most likely to provide the greatest pay-off. At my request the work in hand or planned has been brought together in the attached Annexes so that I can judge how well it fits the major objectives which I have already set as "management principles". At this stage, this programme is provisional since I may wish to redirect some work or to commission new studies, particularly in the field of organisation. I shall arrange for you to be kept up to date with these developments.

For the present, I should draw your attention to the notes on MINIS and the development of responsibility budgets (Annex A), which form a very major part of my strategy for improvement. I should be happy for my officials to continue to keep you in touch with what we are doing. You will see that the other Annexes describe a great deal of other work, planned or now going on, most of it being conducted or led by MOD Service or civilian officials, but with increasing use of outside expertise.

It will be clear to you that our programme of work cannot be directed merely to the MOD's "headquarters", or to our civilian manpower. It has to encompass the Services - an unique dimension, in terms of the Government's efficiency programme. For example, the series of Army studies characterised as "Exercise LEAN LOOK" - mentioned



briefly at Annex C - is designed to seek very substantial economies indeed in support manpower to the advantage of the Front Line. Another study with an important military dimension is the examination of a proposal to create an RAF Maintenance Executive (described at Annex C) being carried out by Sir Alec Morris.

Studies of which you might take particular note for the present are the important review of Service and civilian manpower control systems (Annex A, para 6), and the proposed management audit of Marine Services (Annex B, para 4).

I hope this is helpful, if interim, advice on how our plans for 1984/5 are shaping up. As you suggest, you are welcome to discuss it further with my officials. I have asked the Director General of Management Audit to coordinate the study programme, and you and your staff should feel free to contact him to find out more about our developing defence efficiency programme.

I am sending a copy of this letter to the Prime Minister, the Chancellor of the Exchequer, and to Sir Robert Armstrong.

Michael Heseltine

THE MANAGEMENT INFORMATION AND BUDGETARY FRAMEWORK
FOR ACCOUNTABLE MANAGEMENT

1. The introduction of MINIS in MOD has provided a framework for the further development of management information and budgetary control in MOD. Work has been underway in MOD for some time on developing the concept of responsibility budgets, and the development of a comprehensive budgetary strategy within the MINIS framework will be one of the main objectives for efficiency work in 1984/85.

MINIS

2. The MINIS process will continue in 1984/85 with the second round. It is planned to start information collection in February, aimed towards MINIS meetings beginning in May. The coverage is to be extended to bring in "front line" Command Headquarters both in the United Kingdom and British Forces Germany. Changes to the format of information collected will be made to reflect the parallel developments in staff responsibility budgets. It is planned to introduce improvements into the management information provided in MINIS on procurement projects.

3. The general aims of the second MINIS round in MOD are the same as MINIS 1, and in particular the clarification of responsibilities for functions, the identification of areas for

further efficiency studies, or opportunities for greater competition or involvement of the private sector.

Responsibility Budgets

4. The strategic approach being developed envisages a wide application of responsibility budgets to line management areas, and individual executive operations, throughout the defence administration and support areas. Staff Responsibility Budgets (SRBs) are an essential part of the framework of management envisaged in the MINIS process, and are appropriate to organisations whose main or only inputs are staff and staff related. Work is in hand to design a system of such civilian staff budgets which will be computerised and which will be aligned with MINIS. In essence SRBs will be budgets of the civilian staff resources available to MINIS Senior Officers to meet their objectives to carry out their tasks as summarised in MINIS. The intention is that in due course the budget holder should have authority to vary the grade mix within his staff ceiling and to switch cash resources within his budget but these ideas will need to be developed through further study. The intention is to set up the staff budget system to operate from 1.4.84 to cover some 90% of MOD civilians (only excluding those in the front line).

5. An examination of the necessary arrangements for similar budgets for Service staff is being set in hand. The introduction of SRBs for civilian staff is in itself a substantial task, which

will absorb significant resources in 1984/85; developing SRBs for military staff (outside the front line) is likely to be more demanding in terms both of complexity and of systems development.

6. A major study next year (Crewe) is to examine the systems and practices of manpower control and scrutiny throughout the department, expose any resulting distortions of resource allocation and any other anomalies and inefficiencies, develop options for ensuring greater consistency between areas where greater efficiency would result and suggest improvements. Although wider in scope, this study will clarify the problems of introducing military staff budgets in the headquarters and support areas.

7. Other work planned for 1984 includes a detailed survey of line management units to identify management needs such as introduction and development of cost and management accounts and performance indicators, and to establish priorities for the introduction of new budgetary arrangements.

8. The decision has been taken in principle to introduce executive responsibility budgets (ERBs) on an extensive scale within the general support area, and the question of how this best can be achieved is now under detailed consideration. Trials of ERBs were inaugurated on 1 April 1983 and a review of these trials will be carried out in 1984/85. The basic concept is that a line manager should accept responsibility for achieving a

specified level of performance in a defined area of activity against an annual financial budget. The extension of these ERBs will involve a major management effort, and will absorb a significant part of the MOD's available management accountancy resources.

9. Work will continue in 1984/85 on the clarification of financial responsibilities and relationships in MOD, including the introduction of greater financial discipline in the funding of rationalised services. Financial training will be expanded in 1984/85, including both a new introduction to finance course, and an advanced Vote Management Course. A formal training course in investment appraisal is also to be introduced.

10. As part of the development of the overall budgetary strategy, work is planned to improve the control of administrative overheads which are budgetted for on an input basis, such as headquarters telecommunications, reprographic and graphics facilities, etc. A major study is to be undertaken in 1984 into headquarters accommodation in London. Work will continue into the requirement for a new defence fixed telecommunications system.

Inspection and Audit

11. As part of the Department's overall response to the Financial Management Initiative, consideration is being given to

was of strengthening the central capability for inspection and audit. The study is being carried out as part of the multi-departmental review (CIRC). This is likely to involve organisational change in this area in 1984.

Control of the Long Term Programme

12. Following organisational changes in 1982, improved arrangements are being introduced for the more systematic scrutiny and review of the long term defence programme, for improving flexibility within the programme and for the more effective determination of defence priorities. A number of changes have been agreed to the procedures for major equipment projects to reduce the administrative complexity of the decision making process. A standard format has been developed for presenting to Ministers the financial and factual information relating to equipment development and production decisions, and this will be in full use in 1984.

Specific Work on Budgets

13. Specific work on responsibility budgets is planned for 1984/85 in a number of areas of the department. Some details are given in Annex C. Further work will also be required on the budgetary framework for the Royal Dockyards, following the 1982 Hudson report on which decisions are still outstanding. The Special Adviser, Mr Levene, will be involved in further MOD consideration of this issue early in 1984.

ANNEX BTHE COST EFFECTIVE USE OF RESOURCESGeneral

1. One of the main thrusts of MINIS 1 has been to emphasise to senior line managers, and to individual MINIS Senior Officers, their responsibilities for securing the most cost effective use of resources. A great deal of efficiency work is already planned for 1984/85 within line management areas, and a significant effort will be required to carry through implementation in the next financial year of studies carried out last year or in progress now. In addition there is a small central programme of inspection and audit work designed to look at certain high priority areas on behalf of the Accounting Officers. US of S(AF) is also supervising through the TSSG a programme of studies into the rationalisation of training facilities, and there are a number of tri-Service studies in the supply field.

Management Audits

2. The management audit team led by the Inspector of Establishments(PE) which contributed to the MPO Multi-Departmental Review of the procurement of non-warlike stores is now examining the tasking, management and organisation of MOD's contract work (including the full range of purchasing

MANAGEMENT IN COM...
and specialist support provided by DGDC), with a view to identifying improvements in efficiency and effectiveness.

3. A management audit of a major defence ADP Bureau (Bureau West) by a multi-disciplinary team is planned to start in late Spring 1984.

4. A major special audit of the central functions of the Directorate of Marine Services, including study of the efficiency and credibility of the provision of marine services in certain regions, is under discussion as part of the 1984/5 DGMA programme.

Tri-Service Training and Supply Studies

5. A number of studies undertaken on a tri-Service basis will be continuing - or have now reached the implementation stage - in 1984 (several using outside consultants). They include:

- a. use of defence resources for engineer officer training. Consultant to report by end of 1983;
- b. combination of 3 single-Service Schools of Music into Defence School of Music proposed;

c. Defence School of Languages (with anticipated savings of 11% on running costs, compared with current single-Service arrangements) to be established by end of 1984;

d. ADP training - consultants have been reviewing balance of in-house and outside training;

e. examination of scope for rationalisation/privatisation of physical training and seamanship training (reports expected in Spring, 1984);

f. scope for rationalisation of training of Service dogs and resources devoted to Service horses (report by Spring 1984);

g. recommendation that School of Physiotherapy should be closed and trained physiotherapists recruited from civilian life into an All-Commissioned Service (with estimated annual saving of £0.5M);

h. 'Feeding Study' - looking at standards, efficiency and economy (including charging policy) of the system of Service feeding (report due by mid-1984);

j. recent PSA study completed of 'best practices' in Works Services for BAOR and RAF (Germany) now being considered jointly with MOD to determine how effectiveness of defence works can be improved.

Studies in Individual Line Management Areas

Navy Department

6. A number of measures are in hand designed to slim the Navy's shore training organisation (partly flowing from the Slimtrain study in 1981/82). They include:

- closure of several establishments by 1986, as recommended by Slimtrain (taking account of subsequent changes to requirements identified by CINCPACVHOME);
- co-location of RN and Army diving training on the HMS VERNON site (Portsmouth);
- in-house studies to improve utilisation of the Royal Naval Engineering College.

7. In addition, there are in hand a number of small-scale studies into RN branch structures, aimed at more effective use of manpower. The numbers requirement for the RNR and the RNXS is under study, as follow-up to a recent manpower audit.

8. Within the naval logistics area, there has been a recent study (Jones) of the dockyard support of Fleet and civil shore

establishments, and a follow-on study (Smithers, due in early 1984) aimed at establishing the costs of support and alternative arrangements where appropriate. The new Dockyard Efficiency Scheme is now fully operational at Devonport and should be implemented at Rosyth by the end of 1983 (Portsmouth being still at the development stage): it should help to meet lower manpower targets. At the Clyde Submarine Base, management consultants are designing an efficiency scheme (with savings of 400 staff looked for over 2 years).

9. In the Supply and Transport area, freight movement systems, storage requirements and packaging practices are being reviewed, with changes planned for 1985. New technology, with a view to staff savings, is being introduced to productivity and work measurement schemes. Consultants have proposed a more cost-effective maintenance cycle for vessels employed by the Marine Services, who are also planning to make greater use of ADP and to improve their overtime control system. Consultants are studying alternative support strategies, including procurement, to optimise naval aircraft availability, capability and Through Life Costs. Over the next year, an ADP work planning and monitoring system will be developed directed towards reducing turn round time for helicopter repair.

Army Department

10. Work for 1984 will include:

- PERFORMANCE IN COMBAT
- consideration/implementation of the major review of the Army's training organisation (Groom);

 - review of the functions of the Directorate of Army Education (report by General Sir Hugh Beach, assisted by outsiders, due in mid-1984);

 - follow-up to Rayner scrutiny on Service pay arrangements, including study of single input centre and single Manning and Record office, and combination of tasks;

 - review of provisioning and disposal procedures for spare parts;

 - aims to improve utilisation of Defence Estate by a Main Economy Review in each District (for which outside consultants may be needed);

 - follow-up work to recent management audit of Contract Repair Branch, REME;

 - the 22 studies planned to form part of Exercise 'LEAN LOOK' (see Annex C -terms of reference now being considered).

Air Force Department

11. Work for 1984 (not mentioned elsewhere) includes:
- implementation of study into structure of employment of civilian drivers (aimed at cost-cutting);

 - Air Secretary's study into more effective utilisation of GD manpower (scope for increasing flying tours of GD Squadron Leaders, age of entry, number of ground appointments and possible extension of Specialist Aircrew Scheme - for completion in early 1984);

 - study of Ground Branch Officers (optimum manning of Engineering, Supply, Administration and Security branches - for completion by March);

 - study of Ground Airman (review of terms of engagement, with a view to savings in training - for completion by March);

 - study of role of MOD training staff (commissioned by AMP - role of MOD and division of responsibility between MOD and Command staff for management of flying and ground training - for completion this month);

 - other follow-up action to the 2 reports by the Support Area Economy Review Team (SAERT).

The Procurement Executive

12. Within the PE, the following studies (in hand or awaiting implementation) are of particular importance:

- a. study of development of single management structure for the functions of the Land Systems R&D Establishments;
- b. detailed studies in first half of 1984 following the appointment of a single Director for the Sea Systems R&D Establishments;
- c. further implementation work on Rayner scrutinies of support services at R&D Establishments;
- d. staff inspection studies over next 18 months/2 years to follow up implementation of C of N's "New Look" organisation, with a view to establishing economies and increased efficiency;
- e. examination of project management within the Air Systems Controllerate including-allocation of manpower resources and means of improving effectiveness (to report by Spring 1984, led by a former DGRC);
- f. study in 1984/5 of in-Service quality assurance (RN),

to evaluate the requirement for ordnance safety assurance and to recommend alternative methods and resources; and of the requirement for the Principal Naval Overseers group and the use made of staff resources (not covered in the recent 'Interface with Industry' study, on which implementation work will continue in 1984).

Use of Information Technology and Statistical Techniques

13. A great deal of work is being done on the extension of ADP and other information technology as an aid to management (eg CERN's Central Information Retrieval System). In the Navy Department, for example, the Directorate of Naval Management Systems has in its programme work on about 60 separate projects (some involving outside consultants), almost all directed towards improved efficiency and/or staff savings. In the Army Department, a study (Ramsbotham) is to take place (reporting in mid-1984) into the Architectural Requirements of the Army Department General Purpose Computer System; and the Air Force Department are pursuing a number of computerisation proposals, in the wake of SAERT.

14. The overall direction of all this work was an issue raised at a MINIS meeting. The Chief Scientific Adviser is now undertaking a major review of the MOD's approach to Information Technology, aimed at recommending the strategy and organisation for all such development in the future.

15. Advances in the use of statistical techniques by management will also have a major part to play in the efficiency programme. In manpower planning work, a new system has been developed for extending statistics on RAF manpower, and it is being extended to the other Services. It has already facilitated staff savings. A sample survey of Service travel may help to bring about savings of £1M p.a. on British rail travel.

16. In stores and procurement work, examples of new applications of statistical techniques include:

- SPAREDEX III. Modelling system for improving balance of spares held on board RN ships while improving operational effectiveness developed and to be introduced next year. Expected to save several million pounds.

- "Design-To-Life-Costs" Modelling system for assessing total through-life cost of ownership of military equipment has been developed, with the assistance of outside consultants, and applied to produce savings on ordering of spares, etc.

- Quality Assurance. Techniques developed to reduce amount of ammunition required to produce significant results from test firings, and so reduce cost of weapon testing.

- Equipment Management. Models developed and in use to improve management of equipment, including 'B' vehicles and Naval armament stores.

- Defence Specific Price Indices are being developed to improve knowledge of movements in defence industry prices and hence management of procurement expenditure.

Defence Fixed Telecommunications

17. Further work is being undertaken to achieve the improvements in organisation and financial control of defence fixed telecommunications recommended in a Rayner scrutiny (Marsh). A major study, involving consultants, of the architecture for a UK Defence Fixed Telecommunications System, and the implications of developing it (including cost savings) has just been completed.

ANNEX CWORK DESIGNED TO ENABLE FURTHER DELEGATION OF
AUTHORITY AND RESPONSIBILITY TO INDIVIDUAL MANAGERS

1. As set out in the Secretary of State's management principles, if accountable managers of executive operations are to direct their operations efficiently, they must have a significantly greater measure of control over all aspects of their work. This principle is being applied throughout all the efficiency studies discussed in Annex B, but a number of specific reviews will address this problem directly.

2. A major example is the study of civilian personnel management (called for as the result of a MINIS meeting). This study (Mehew) is examining options for the greater delegation to the line manager of responsibility for personnel management; and is considering the implications of 75%, 50% and 25% cuts in the central CM organisation.

3. In the Navy Department, work will continue in 1984/85 on the delegation of responsibility to Dockyard General Managers following the Omand Report. Work is also continuing to refine the management responsibilities of the new naval bases in Portsmouth and Gibraltar and their relationship to MOD headquarters.

4. In the Army Department, a major development will be the setting up of the new post of Commander Training Establishments at UKLF. Work is in hand (to report by March) on the development of a responsibility budget. A report is also due (by March) on the application of the Responsibility Budget concept to the Service Children's Education Authority. A major series of 22 studies is starting to look at selected support areas of the Army to identify some 4000 posts which are to be transferred from the "tail" to the "teeth" (Exercise Lean Look).

5. In the Air Force Department, a major study (recently started by a team led by Air Marshal Sir Alec Morris) is to report on the potential benefits which would accrue to the RAF from the creation of a Maintenance Executive; its detailed functions, management and staffing; its relationships with the AFD, PE and Commands; its location, and the time-table for setting it up; and the potential costs and savings.

ANNEX DSCRUTINISING THE NATURE OF WORK DONE IN MOD,
AND INTRODUCING NEW ELEMENTS OF COMPETITION

1. Ministerial direction has been given that a greater measure of competition is to be sought, both in equipment procurement and in the provision of administrative and other support services. The principle being applied is that the only work which is carried out within the defence support organisation is that which is essential for clearly proven operational reasons, or where there is significant financial advantage for the tax payer.

2. The MOD is thus looking for greater competition in a number of ways: through privatisation, contracting out, hiving off or partnership with private enterprise. For operations that remain within the public sector we are seeking greater involvement of commercial expertise through consultancies, through exchanges or secondments with outside industry and commerce, and through developing potential for commercial exploitation.

3. Substantial work is proceeding on the plans for the change of status of the Royal Ordnance Factories with a target date for vesting day before 1.4.85. The personnel implications and the

effects on the Defence Sales and Contracts organisation (which will be significant) are all under study. At the same time, CERN is planning, subject to Ministerial decisions, to devolve design and development work and some applied research from the 3 Land Systems Establishments to the ROF's in 1984 (including devolution of the Rocket Motor activities of PERME). This is likely to involve major change in these areas.

4. Other privatisation options under study include the PE storage depot at Aston Down, the RMCS Shrivenham and the Army Work Study School, Dental Laboratories, and bridging work at MVEE Christchurch.

5. Consultants are examining (due to report in early 1984) the future management options for the Duke of York's Royal Military School and the Queen Victoria School, with the aim of reducing their dependence on public funds.

6. Prospects for contracting out work include grounds maintenance (where the Navy Department are considering the possibility of saving 300 posts by 1986); catering (where further studies are under consideration with possible savings of 700-800 posts) and refuse disposal; the running of hostels, barracks and messes; marine services work at Falmouth and the Kyle of Lochalsh; Service and civilian movements (in the light of a Rayner scrutiny), including the use of coaches and air charter; the use of contract personnel for security duties at

less sensitive installations and for the maintenance of ranges; and certain office services, such as typing, reprographic work and the distribution and storage of forms and publications. Other specific measures for possible contracting out were identified earlier in 1983 and are also now likely to require further study, in the light of decisions taken on the MOD's future civilian numbers. Many of these measures will be for implementation in 1985/6. The exercise to contract out cleaning work continues.

7. To introduce a greater measure of competition in the supply of support services (to which all the above measures may also be relevant), the Navy Department has been considering proposals for some warship refits and repair to be undertaken in the private sector, and there has been a study into ways of establishing valid comparisons between the performance of the dockyards and industry. The Army is considering the possible commercialisation of certain medical stores arrangements with implementation of changes expected by mid-1984. Following up SAERT, some aircraft servicing is being put out to contract, and the Air Force Board has been considering the balance of repair work between the Service and industry. Contract servicing at RAF Linton on Ouse will be introduced in 1984/85; and contract servicing is planned to be introduced at several other flying training schools in 1985-87. The practicability of putting to contract the maintenance of RAF flight simulators is also being studied.

8. In the training area, the scope for privatisation or contracting out has been a major feature of tri-Service training studies. Two contracting out trials of heavy goods vehicle training will be run in 1984. The contracting out of basic driver training for the RAF and RN is being expanded on a UK-wide basis in early 1984.

9. Action is in hand to designate the National Army Museum and the RAF Museum under the National Heritage Act to make these non-MOD bodies for funding and staffing. It is planned to transfer some 2400 MOD staff to the Territorial and Volunteer Reserve Associations by 1986.

10. Outside expertise is being used on an increasing scale. As one example, a consultant has been advising the Dockyards new Corporate Development Board on the promotion of new methods, including the selection and development of dockyard management.

ANNEX E

CLARIFYING AND SIMPLIFYING THE ROLES OF
SENIOR OFFICERS WITHIN HEADQUARTERS

1. MINIS meetings have indicated the need for greater clarity over responsibilities at 'headquarters' for particular executive operations, and within headquarters for particular 'policy' functions. As a result of MINIS, responsibilities for executive operations are being clarified; and, following the Reeves 2 recommendations charters are being issued to those officers, military and civilian, who are formally entrusted with financial responsibilities. Other work for 1984 (eg the CGS Study of Army numbers, see Annex C) may have implications for MOD organisation and structure. The recent reorganisation of CDS's staff is due to be reconsidered in staff inspections planned for the first half of 1984.

2. In the PE, CERN is reviewing the top structure of his organisation (including the interface with senior scientists). Report due in early 1984. A study is to be carried out during 1984/5 aimed at improving efficiency by transferring certain financial responsibilities from MGO to QMG.

3. As a result of MINIS, decisions (not yet announced) have

been taken on the top management structure of the Defence Intelligence Staff, designed to simplify reporting lines. Further consideration of the Medical/Dental top structure and occupational health responsibilities may be required in 1984 in the light of MINIS meetings.

4. Following MINIS meetings, preliminary analysis is under way into responsibilities and organisation in the area of operational concepts work. A submission to the Secretary of State is to be made shortly.

5. A study of the organisation and responsibilities of the Ordnance Board is being planned for 1984/5.

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