



MINISTRY OF DEFENCE
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17th April 1984

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Dear David,

SCRUTINIES AND VALUE FOR MONEY

Thank you for your letter of 8th March.

Mr Heseltine shares the Prime Minister's presumption that scrutinies should lead to prompt decisions and action and her concern that momentum should be maintained in giving effect to the outcome of scrutinies, including earlier value for money work. The position on the three specific cases referred to in your letter is as follows.

Contracting Out Major Aircraft Repair

The reference is to two separate studies. The first recommended a wide ranging examination of contract repair, not confined to aircraft and equipment outside the front line. The second made recommendations about first and second line servicing of training and communications aircraft and about other station tasks, including supply. The figure of £16M was an admittedly crude and illustrative assessment in the first study of the annual savings which might be realised after incurring about £16½M on the costs of redundancy and further unspecified costs on increasing stock levels against the longer lead times required by industry to undertake contract repair. The study recommended that more refined costings should be undertaken.

These costings, which allocated overheads more accurately, do not bear out the results of the earlier work. Further examination has also pointed up the weight which should be given to other factors, for example, timescale, operational readiness and effectiveness in emergency. We are nevertheless seeking to open more RAF repair and servicing to competition, particularly in the training, communications and miscellaneous aircraft fleets. In addition to spares procurement, which comes entirely from industry, some

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35% of aircraft servicing and repair by value is already done in industry and about 50% of the major engineering and modification work. Further benefits will come industry's way following a recent decision to contract out work on Canberras and Hunters. In addition, a trial contract is about to be let for first and second-line servicing at an RAF flying training station at Linton-on-Ouse. Preparations are being made to let similar contracts for servicing of aircraft of University Air Squadron and Air Experience Flights, if this trial is a success. We are also examining the scope for introducing industrial competition for the major servicing of Nimrods, and contract servicing of the Hawk fleet is under consideration. If the requirement for a new basic training aircraft is endorsed, we shall want to look at contract servicing for that. You should also be aware that a great deal of major aircraft servicing and refurbishing work is already done by industry. Work on Canberras and Hunters has recently been transferred to industry and we are examining the scope for introducing industrial competition for the major servicing of Nimrods.

Efficiency in the Issue of Service Pay

The recommendations of the 1983 Report on the arrangements for the issue of Service pay - that the Army and Navy should bring their ratios of pay staff to payees into line with that of the Air Force - have been accepted and form part of the Action Document approved by Defence Ministers. Implementation will be progressive over the next year or two as complementing reviews weed out posts considered to be dispensable. For the Navy an important consideration is the introduction of central pay determination and the use of the Bankers Automatic Clearing System (BACS). These are dependent on the introduction of the new 2900 computer at the Navy's Pay and Record office at HMS CENTURION in Gosport. It is hoped to have the new computer operating by the end of this year, and to introduce central pay determination using it in 1986.

The Meteorological Office

Your figure of £7M refers, I believe, to the potential annual savings in the cost of running the Meteorological Office identified in the recent Resource Control Review of the Office. The range is £5.7M - £7.5M a year over a period. £2M - £3.3M of these figures arises from expectations of increased income rather than from savings of resources. They depend on fairly drastic curtailment of the free public service, the creation of joint ventures and a general marketing drive. Above all they depend on a political solution to the problem of pirating, by the admittedly few commercial competitors that exist, of basic data and analyses transmitted by wireless for WMO exchange purposes and from satellites, the UK cost share of which has to be borne by



the Office and is reflected in their charges. We are consulting other Departments about these measures. Our present assessment is that some of the curtailment of free services suggested in the Review is too drastic.

Of the remaining £3.7M - £4.2M annual potential saving most stems from a suggestion that forecast and observational services for the RAF might be centralised. This has important implications for flying operations and we aim to reach conclusions shortly after Easter. If the proposal is found feasible, considerable initial investment in further automation, communications and systems development will be needed over a period of years. Some £0.9M of the potential annual saving concerns equipment and other changes which are being decided and implemented progressively within available capital and staff resources. Momentum is being maintained through an Action Plan approved by Defence Ministers who receive regular reports on progress.

*Yours ever
Nick Evans*

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10 DOWNING STREET

From the Private Secretary

8 March 1984

SCRUTINIES AND VALUE FOR MONEY

The Prime Minister has recently been looking at the state of play on improving value for money in Government through scrutinies and closely related work. She continues to be impressed by what can be achieved in this way and hopes that Ministers will continue to target scrutinies on good areas and that Permanent Secretaries will use their best people as examining officers.

The Prime Minister feels, in addition, that we need to maintain a strong presumption that scrutinies lead to prompt decisions and action. She is concerned that, unless momentum is maintained, the system will clog up and prevent the right sense of urgency being achieved.

On the basis of your Secretary of State's plans for improving value for money in 1984/85, Mrs. Thatcher has commented that she is encouraged by the speed with which Mr. Heseltine is seeking action. The Prime Minister has asked me to say that she is wholly behind your Secretary of State in this. She hopes that the same sense of urgency will be possible in setting dates for action on recommendations from earlier value for money work such as:

- contracting-out major aircraft repair other than for the front-line for an estimated saving of £16 million a year (RAF support services review);
- bringing Army and Royal Navy pay practices up to the standard of the RAF with a potential saving of £19 million a year (scrutiny of Service and Civilian Pay);
- the scrutiny of the Met. Office, saving £7 million a year.

I am copying this letter to Sir Robin Ibbs and Sir Robert Armstrong.

David Barclay

Richard Mottram, Esq.,
Ministry of Defence.