

CONFIDENTIAL FILING

Transfer of financial Services functions
from the DTI to the Treasury

GOVERNMENT
MACHINERY

SC
1247

March 1987

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
6.4.87							
30.4.87							
21.5.87							
PREM 19/2210							



file 168

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

POSSIBLE MACHINERY OF GOVERNMENT CHANGES

I have shown the Prime Minister your minute of 20 May containing further advice about the case for Machinery of Government changes which would re-group functions currently allocated to the Department of Employment and the Department of Trade and Industry.

The Prime Minister has not indicated that she has come to any view on the substance of the matters referred to in your minute. But she has said that she would not wish you to discuss the various options canvassed in the paper with the Permanent Secretaries of the Department of Trade and Industry and the Department of Employment. She is, however, content for you to confirm with the Law Officers that the Secretary of State for Employment has powers in the Employment and Training Act 1973 to remove the Employment and Enterprise Group from the MSC and merge it into his new Department.

N. L. WICKS

21 May 1987

DN to see P
pa.

PRIME MINISTER

POSSIBLE MACHINERY OF GOVERNMENT CHANGES

Study of the minute below can await the weekend if that is more convenient.

Obviously you do not want to have to take decisions now on the machinery of government changes discussed in Robert's minute below. But unless you want to rule out such changes, Robert asks your approval, without prejudice to your eventual decisions:

Yes

(1) to confirm with the Law Officers that the Secretary of State for Employment has powers in the Employment and Training Act 1973 to remove the Employment and Enterprise Group from the MSC and merge it into his own Department;

No

(2) to discuss with the Permanent Secretaries of the Department of Trade and Industry (Sir Brian Hayes) and the Department of Employment (Sir Michael Quinlan) the various options canvassed in the paper to check that the changes would be sensible. If such discussions take place, it would be essential that Robert speaks to no-one but the Permanent Secretaries and that they did not talk to their Ministers (though Lord Young, but not Mr. Channon, will be aware of the general lines of thinking).

Yes

Do you want Robert to consult with the Law Officers and discuss with the Permanent Secretaries? No

N.L.W.

ms

N. L. WICKS
20 May 1987

JALBHT

Ref. A087/1417

MR WICKS

Possible Machinery of Government Changes

Your minute of 29 April asked for further advice about the case for machinery of government changes which would re-group functions currently allocated to the Department of Employment and Department of Trade and Industry, so as to produce a trade and regulatory department (resuscitating the Board of Trade) and a grouping of employment and industry functions (which could be called a Department of Enterprise). I have taken into account the outcome of the Prime Minister's discussion with Lord Young on 28 April.

Note attached

The Proposals

2. Three main changes would be involved:
 - i. bringing the employment and enterprise creation functions of the Department of Employment together with the industry functions of the Department of Trade and Industry;
 - ii. bringing the trade and regulatory functions traditionally associated with the 'Trade' portfolio together with the Department of Employment's responsibilities for industrial relations and health and safety at work;
 - iii. bringing the payment of benefit to the unemployed together with the policy on benefit by transferring the Unemployment Benefit Service (UBS) from the Department of Employment to the Department of Health and Social Security.



--- 3. The diagram at Annex 1 gives a schematic view of what would be involved.

4. This would be a substantial organisational change. In one sense it would be evolutionary: responsibility for tourism and small businesses went across to the Department of Employment, and what is proposed would be a further large shift in the same direction. In another sense it would be radical. Since the end of the First World War, with the emergence of trade unions as an organising force for the interests of labour, we have had on the one hand a Board of Trade (and its various descendants) and on the other hand a Ministry of Labour (of which the Department of Employment is recognisably the lineal descendant). For 70 years the inter-departmental frontier has been drawn between "industry" (the Board of Trade, looking out primarily towards management) and "employment" (the Ministry of Labour, looking out primarily towards workpeople). This reorganisation would in effect be a declaration that that frontier is out of date and has outlived its usefulness - indeed, that it is perhaps helping to perpetuate a divide between management and workers which ought in the national interest, and in the pursuit of "one nation", to be actively discouraged. The new frontier would be drawn between "enterprise" (encompassing industrial development and employment creation) and "regulation" (doing what is necessary - but no more - to hold the ring where the interests of management, workers and consumers (including shareholders and depositors) conflict).

5. This reorganisation would also bring about a better balanced distribution of functions and workload between the two departments concerned than the present arrangements. But there are political risks: there could be a danger that the "enterprise" department would be seen as positive and constructive and the "regulatory" department negative and bureaucratic. And, where the two interests conflicted, the



ultimate resolution would be between two Ministerial Heads of Departments, and would be more likely to involve Cabinet (or a Cabinet Committee) and the Prime Minister.

The Case for Change

6. Whether these changes would be justified depends ultimately on whether the resulting machinery would be better able to deliver the objectives the Prime Minister wishes to secure. The main arguments in favour of change appear to be:

i. the new Department of Enterprise would provide a powerful focus for enterprise and job creation policies;

ii. the Department of Trade would bring together the Government's regulatory functions affecting industry and employment, which would help to provide cohesion, consistency, and assessment of overall impact;

iii. Ministerial portfolios would be more evenly balanced. The Secretary of State for Trade and Industry's present command spans ten line posts immediately below Permanent Secretary level (nine Grade 2 posts in the Department of Trade and Industry, plus one in ECGD), while for the Secretary of State for Employment the figure is five (two Grade 2 posts in the Department of Employment, plus two in HSE and a Grade 1A in MSC). Under the proposed changes the Secretary of State for Enterprise would span eight (seven Grade 2 posts in his department, plus the MSC's Grade 1A), and the President of the Board of Trade seven (four Grade 2 posts in his department, plus two in HSE and one in ECGD);

iv. merging the Unemployment Benefit Service into the Department of Health and Social Security would maximise the management benefits of computerisation of social security, and permit improved service (claimants would no longer have

to deal with two separate offices) with fewer staff (last year's joint DE/DHSS study estimated that 1,500-2,000 staff would be saved by integrating the payment of all benefits to the unemployed).

7. Against this, any change imposes transitional costs and disruption, during which some attention is diverted from primary objectives to reorganisation. For the transfer of the Unemployment Benefit Service to the Department of Health and Social Security, last year's study enables us to put some estimated figures to this: a transition cost of £50-80 million followed by recurrent annual savings whose net present value would be £140-155 million. As with the transfer of responsibility for small firms and tourism in 1985, implementing the changes would be likely to require Transfer of Functions Orders.

Lord Young's Proposals

8. In general, these changes would be compatible with the outcome of the Prime Minister's discussion with Lord Young on 28 April. Specifically, there would be no effect on the ability of the Secretary of State to use his powers under the Employment and Training Act 1973 to remove the Employment and Enterprise Group from the MSC and merge it into his own department. When that option was considered in 1983, the Law Officers advised that it went to the limit of what was possible under the 1973 Act, without new primary legislation. Given the political opposition which could be expected to making this change without new legislation, it might be as well to confirm that the Law Officers are still content with the procedure. If the Prime Minister agrees, I will do this - without prejudice to her decision whether or not to make the changes proposed.

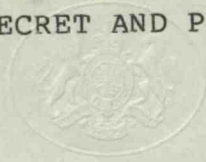
9. There is, however, a difference between these proposals and Lord Young's proposals in relation to the Unemployment Benefit Service (UBS). Lord Young, I think, envisages that the



administration of the UBS would be part of the Department of Enterprise (as it now is of the Department of Employment) and that that department should also take from the DHSS responsibility for policy on unemployment benefit, so that benefit can be used more readily as an instrument of employment policy. I do not believe that it is necessary to retain the administration of the UBS in the Department of Employment in order to enable the provision of benefit to the unemployed to be structured so as to contribute to the achievement of employment and training objectives. The UBS is merely the executive operation which pays out benefit in accordance with the policy determined by the Government. In my judgment, the machinery can perfectly satisfactorily serve Lord Young's proposed aims, and at the same time offer greater efficiency and improved service, if the UBS is transferred to the Department of Health and Social Security and the Secretary of State for Enterprise (or Employment, if things stay as they are) is fully involved in decisions about policy on benefits for the unemployed, by inter-departmental consultation or in Cabinet or Cabinet Committee.

Changes in Detail

- 10. Annexes 2 and 3 indicate how individual Divisions within the Department of Employment and the Department of Trade and Industry might be reallocated if the changes went ahead. In most areas the breaks are reasonably clean, but there would inevitably be some details to be sorted out with the departments concerned, notably in the division of support services, the provision of regional office capability, and, if Lord Young's proposal to place part of the MSC in his own department goes ahead, in links to the Secretaries of State for Scotland and Wales (to whom the MSC currently reports).
11. If the Prime Minister would like to keep open the option of making this change, I will discuss it with the two Permanent



Secretaries whose departments are principally concerned, so that we can be as sure as possible that what is proposed would be sensible.

RA

ROBERT ARMSTRONG

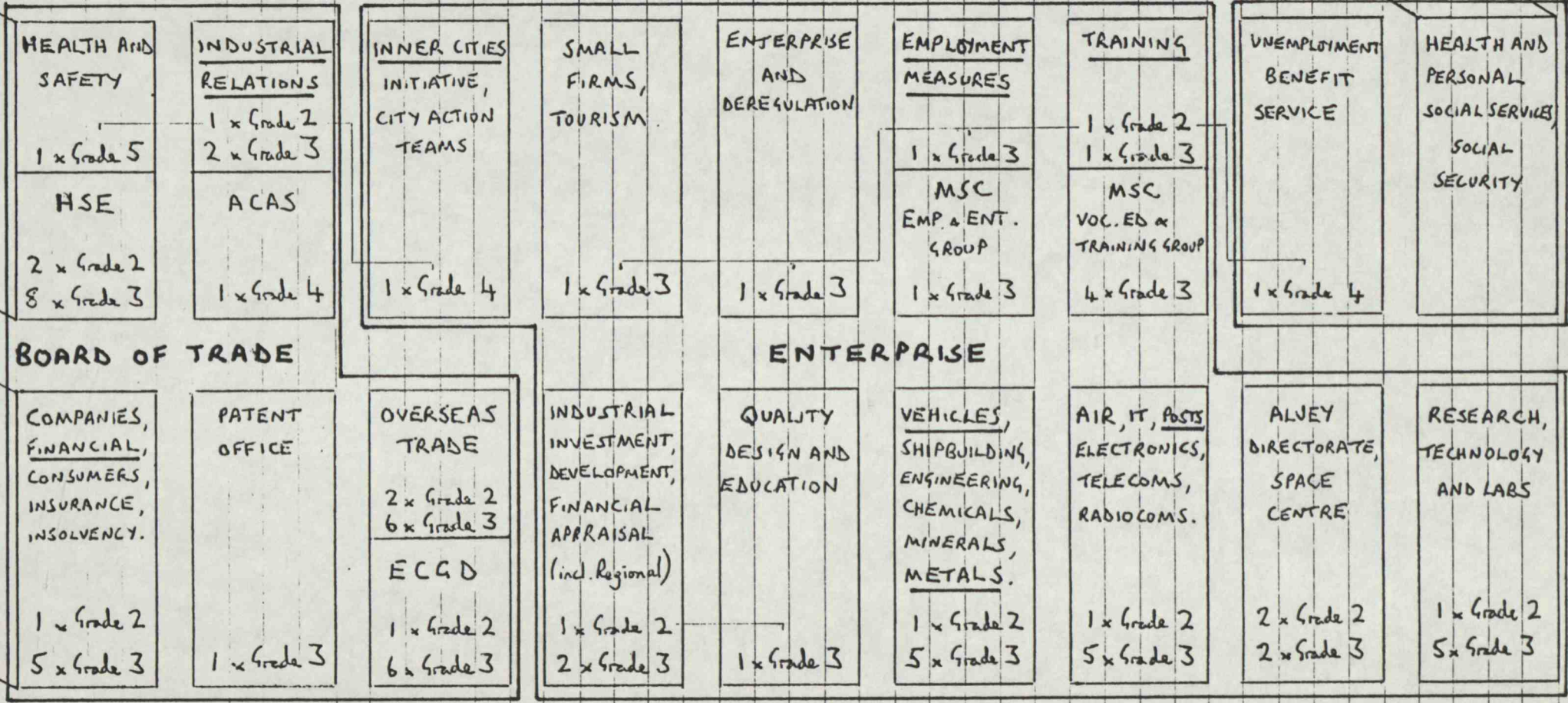
CONQUEROR

20 May 1987

DHSS

DE

DTI



POSSIBLE REALLOCATION OF PRESENT DE GROUP DIVISIONS

<u>Division</u>	<u>Staff Numbers</u>	<u>New Department</u>
Employment Policy	50	Enterprise
Small Firms and Tourism	120	"
Manpower I (Training, Careers)	60	"
Manpower II A (Employment)	40	"
Inner Cities Initiative	40	"
Enterprise and Deregulation	20	"
Industrial Relations 1 and 2	150	Board of Trade
Health and Safety Liaison	80	" "
Manpower II B (UBS)	28,000	DHSS
Overseas A and B	30	Division between Enterprise Trade, DHSS
Economic and Social	70	" " "
Statistics and Computer	360	" " "
Finance and Resource Management	300	" " "
Personnel and Management Services	500	" " "
Solicitor's Office	30	" " "
<u>MSC</u>		
Employment and Enterprise Group	11,000	Enterprise
Vocational Education and Training Group	6,500	Remains in MSC
Planning and Resources	300	Divide between Enterprise and MSC
Personnel and Central Services	1,000	" " "
Skills Training Agency (+ PER From E E Grp)	3,400	Privatise/Close
<u>HSC/HSE</u>	3,600	Sponsored by Board of Trade
<u>ACAS</u>	630	" " "

POSSIBLE REALLOCATION OF PRESENT DTI DIVISIONS

<u>Division</u>	<u>Staff Numbers</u>	<u>New Department</u>
Regional Offices		Enterprise (reporting to Trade on exports)
Investment and Development		Enterprise
Industrial Financial Appraisal		"
Quality Design and Education		"
Air		"
Electronics Applications		"
Information Technology		"
Telecommunications and Posts		"
Radiocommunications		" (1)
Alvey Directorate		"
British National Space Centre		"
Research and Technology Policy		"
Industrial Research Laboratories		"
Chemicals, Textiles, etc.		"
Minerals and Metals		"
Shipbuilding and Electrical Engineering		"
Vehicles		"
Mechanical Engineering and Manufacturing		"
Business Statistics Office		" (2)
Financial Services		Board of Trade (3)
Companies		" "
Consumer Affairs		" "
Insurance		" " (3)
Insolvency Service		" "
Overseas Trade 1-4		" "
International Trade Policy		" "
Patent Office		" "
General Policy		Divide between Enterprise and Trade
European Policy		" " "
Establishments and Finance		" " "
Solicitor's Office		" " "
Economics, Statistics		" " "

Notes:

- (1) Part of Radiocommunications Division is regulatory and could therefore go to the Board of Trade
- (2) Most BSO work is industry rather than trade related, but an alternative would be to merge BSO into CSO
- (3) Financial Services and Insurance Divisions include sponsorship as well as regulatory functions; the former could go to Enterprise.



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10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

POSSIBLE MACHINERY OF GOVERNMENT CHANGES

The Prime Minister discussed with you this afternoon your three minutes of 24 April about possible machinery of Government changes.

The Prime Minister said that she had concluded that she did not wish the next Conservative Manifesto to refer to the machinery of Government. She was coming to the view that major changes of the kind described in your minutes were not worthwhile for the moment, though some of the matters which were discussed at yesterday's meeting with the Secretary of State for Employment were worth considering further. She was inclined to delay major changes until the next round of privatisation had been completed.

You replied that you would not wish to try to dissuade the Prime Minister from this view. But you were concerned about the strain which would be imposed on the Department of the Environment by the substantial legislative task in the opening sessions of the next Parliament. In further discussion, the Prime Minister agreed that the position of the Department of the Environment would need special care in view of its prospective legislative programme. But it was doubtful whether machinery of Government changes would help in this regard.

RFH
The Prime Minister said that before finally concluding against substantial machinery of Government changes, she would welcome further advice from you about the case for re-creating the old Board of Trade by transferring the Department of Trade and Industry's "industry functions" to the Department of Employment. She would be willing to consider minor machinery of Government changes such as the transferring of the Central Computer and Telecommunications Agency (CCTA) on a case by case basis.

N. L. WICKS

29 April 1987



File

SUBJECT
CE MASTER10 DOWNING STREET *Original on*

LONDON SW1A 2AA

MANPOWER-SEMS

PT 15.

28 April 1987

From the Private Secretary

Dear John,

DEVELOPMENT OF EMPLOYMENT AND TRAINING PROGRAMMES AND
ORGANISATIONS IN THE NEXT PARLIAMENT

The Prime Minister this morning held a meeting to discuss employment and training programmes and organisation in the next Parliament on the basis of your Secretary of State's minute of 23 April. There were present your Secretary of State, the Lord President, the Secretaries of State for Education and Social Services, the Chief Secretary, Sir Robert Armstrong and Mr. Norman Blackwell (No. 10 Policy Unit).

Your Secretary of State explained his proposals along the lines set out in his minute. He was not interested in introducing a full system of Workfare: it would simply not be possible to set up schemes for three million people, even if that were desirable. But his proposals for a three-pronged guarantee would bring direct benefits to those receiving places on the programmes and would allow a progressive tightening of benefit sanctions. Withdrawal of benefit for 16 and 17 year-olds would require legislation which might be included in a Social Security Bill in 1988-89. Plans were in hand for more limited changes to be made in 1987-88. It seemed almost inevitable that this year's Trades Union Congress would black the Job Training Scheme and that the unions would walk out of the MSC. The unions would also be antagonised by the proposal to take Job Centres back into the Department of Employment. There were, in any event, strong arguments for abolishing the MSC.

The Chief Secretary said he had fully supported the broad thrust of proposals made by the Secretary of State for Employment and put into effect over the past year. However, the pressure on public expenditure, and the effect higher spending would have on the tax burden, gave cause for particular concern about the proposal to extend a guarantee to 18 - 15 year-olds unemployed for more than two years. Such a guarantee would be costly and open-ended. Moreover, a Public Expenditure Survey transfer from DHSS to the Department of Employment would substitute uncertain savings on a demand-led programme for an increase in a cash-limited programme. With falling unemployment, the Employment and DHSS programmes should provide a most important source of savings in public

expenditure which could be used to reduce taxation during the next Parliament. The Chief Secretary also expressed strong doubts about the proposed expansion of the Community Programme which would, among other things, exacerbate the problem of displacement of existing jobs. Stronger benefit sanctions could be achievable without it.

It was recognised in discussion that the proposals would edge towards a position where the State was regarded as employer of last resort for those who verged on the unemployable. This might well be unavoidable. The proposals could also exacerbate problems with incentives, since "benefit plus" payments for those on the Community Programme would not attract tax and NIC. On the other hand, the proposals would allow a tightening-up of benefit sanctions, as well as being worthwhile for themselves.

The weaknesses of the MSC as an organisation, and the case for abolishing it, were recognised in further discussion. It would however be very difficult for the Government to seek now to abolish it, and it would be worthwhile to check what was said by the Conservative Government of 1970-74 when the MSC was created. It was agreed that it would be right for Job Centres to be brought back within the Department of Employment and to legislate to change the balance of voting rights in the MSC to give employers a majority, in view of their growing importance in the creation of jobs. The necessary legislation could be included in the Trades Union Bill for which the Department of Employment had already secured a place. The intention to transfer the Job Centres could be mentioned in the Manifesto. If the Government were asked its intentions for the MSC it would be necessary to point out that the Government assumed that the MSC would co-operate in the changes proposed. The intention to change the balance of the MSC could be mentioned. It would be possible for the MSC to act as agents for DES on non-advanced further education and TVEI, but this should be further considered.

Summing up, the Prime Minister said your Secretary of State could proceed as proposed with the first two of his guarantees, namely that for 16-17 year olds and for 18-25 year olds unemployed for 6-12 months, and the appropriate PES transfer from DHSS should be made. The third guarantee, for 18-50 year olds unemployed for more than two years, should not be given firmly at this stage. It should be presented using words along the lines "... the government would move towards a position in which a guarantee could be offered ..." or "... hope during the lifetime of this Parliament to be able to...". The precise words to be used, together with the financing, should be discussed and agreed with the Chief Secretary. On organisation, it would not be right now to seek to abolish the MSC. Job Centres should be brought back within the Department of Employment and legislation should be taken to change the balance of voting rights to give employers a majority. Your Secretary of State should proceed with his intention to move the Community Programme to "benefit plus".

I am copying this letter to Mike Eland (Lord President's Office), Geoffrey Podger (Department of Health and Social Security), Rob Smith (Department of Education and Science), Jill Rutter (Chief Secretary's Office) and Trevor Woolley (Cabinet Office).

John,

David.

David Norgrove

John Turner, Esq.,
Department of Employment.

PRIME MINISTER

POSSIBLE MACHINERY OF GOVERNMENT CHANGES

It is worth testing Robert Armstrong's suggestions for possible machinery of government changes against the following criteria:

- Do they help the development and implementation of policy, especially the radical policies which you have in mind for the next Parliament?
- Do they give a good prospect of saving money, or getting better value for money from existing expenditure through improved management?
- Will they make sense to the public and not appear as another shuffling of the Whitehall pack?
- Would they make equal sense when there are different Secretaries of State from those you have in mind for the initial appointments?

The frictional costs of machinery in government changes are high: diversion of civil servants skills carrying through the re-organisation; creating uncertainty, etc. So the advantages under one or more of the four headings need to be tangible and clear cut if the costs are to be offset.

Tested against these criteria, I do not think that the wholesale changes sketched out by Robert Armstrong are worthwhile, though some of the smaller moves look worth considering further, eg:

- moving regional policy from DTI to Employment;
- transferring responsibility for the Central Computer and Telecommunications Agency (CCTA) from the Treasury but not necessarily to the DTI: DTI would tend to use CCTA as an

instrument of public purchasing - buying British even when not best;

- and perhaps the transfer of the unemployment benefit service to the proposed employment agency suggested by Lord Young (though Robert Armstrong suggests that responsibility for unemployment benefit should be with the DHSS).

For the longer term I think it worthwhile working towards the sort of Department of Commerce/Board of Trade/Department of Regulation which Robert suggests. But I would not move fast down that track until Departments had carried through the radical policy reforms envisaged for the next Parliament.

N.L.W.

(N. L. WICKS)

28 April 1987

Ref. A087/1138

MR WICKS

Possible Machinery of Government Changes

D Your minute of 30 January asked me to advise, after discussion with Sir Robin Ibbs, on certain possible machinery of Government changes, which might lead to the formation of a Department of Enterprise. I thought it would be sensible to let the Prime Minister have at the same time some ideas on the possibility of change in the present division of responsibilities between the Department of the Environment (DOE) and the Ministry of Agriculture, Fisheries and Food (MAFF).

2. Any reallocation of responsibilities inevitably carries with it disruption and a diversion of effort, and we need to be sure that these disadvantages are likely to be offset by greater effectiveness in achieving policy objectives or greater efficiency in managing Departmental activities. I have assumed that the Prime Minister will wish to initiate reorganisation only where she judges there to be compelling reasons for it, in terms for example of an improved distribution of workload between Ministers or a better match between departmental responsibilities and the achievement of policy aims.

Enterprise

3. A great many departments currently undertake functions which could be said to influence enterprise in one way or another. In addition to the proposals mentioned in your minute, education, the tax system and the development of services and infrastructure could all have a bearing, and no doubt there are other examples. Brigading all functions which have an enterprise aspect would produce a department so large as to be

unmanageable. It is therefore necessary to identify those functions whose contribution to enterprise policies is most likely to benefit from transfer to a directly enterprise-orientated portfolio. Factors in this selection may include whether the Government has other major policy objectives, alongside enterprise, for each function in question, and the scope in each case for advancing enterprise aspects of the function if it remains in its present location (as in the existing approach to deregulation).

4. Your minute outlined a Department of Enterprise based on the Department of Employment (DE) plus parts of the Department of Trade and Industry (DTI) such as regional policy. It suggested that the Department of Energy might then merge with the remainder of DTI, the Manpower Services Commission (MSC) might merge into DE, and policy on benefits for the unemployed transfer to DE from the Department of Health and Social Security (DHSS).

5. A major attraction of such an approach is that it would provide a clear enterprise orientation for those parts of the DTI which joined the new department, recognising industry's importance in generating economic growth and hence creating jobs, and building forward from the Prime Minister's decision in 1985 to transfer responsibility for small firms and tourism from DTI to DE.

Industry

6. Regional policy is, however, not the only DTI function that contributes to enterprise in the sense of stimulating growth, innovation and the creation of employment. This is - or should be - fundamental to the whole of its industry activity. Moreover, removing regional policy, and perhaps some other parts, while leaving a substantial body of industry responsibilities behind, would pose two difficulties. First, it



would cause severe dislocation in the way Government relates to industry. The application of regional policy and DTI's sponsorship function (understanding specific industries, their opportunities and their problems) are inter-dependent, and link closely with other activities conducted through DTI's regional offices such as export promotion and support for innovation. It is important that as far as possible a single department can interface with the whole of the industrial sector. Secondly, there seems a real risk that the industry functions left behind in DTI would find themselves in a policy vacuum, distanced from the enterprise focus but with no alternative policy focus of their own. An arrangement which appeared to distinguish some parts of industry (ie small firms) as "good", with potential for growth and enterprise, and other (large and publicly owned companies) as "bad" would inevitably cast the latter group as a backwater. I suggest therefore that the 'industry' component in a new Department of Enterprise should be the whole of DTI's industry wing and not just regional policy.

DOE Regional Functions

7. By bringing together DTI regional policy and the regional aspects of DE/MSD programmes, the model described in your minute suggests one other possible addition to any new Department of Enterprise: the regional development functions currently in DOE. This has some attractions - City Action Teams and the Inner Cities Initiative illustrate the need for close co-ordination between the present DE/MSD, DTI and DOE programmes, and brigading all three in a single department could reinforce existing co-ordination and provide greater flexibility to transfer resources between programmes within regional units.

8. Much, however, of DOE's regional development effort is concerned with social rather than business and economic objectives. The Inner Cities Directorate, for example, is concerned with the Urban Programme (the review of this programme



in 1984 found that only a third of total expenditure was on economic projects, the remainder going to social and environmental ends), with Urban Development and Urban Regeneration Grants, derelict land reclamation and Urban Development Corporations (whose objective is to secure the physical, social and economic regeneration of their areas with the maximum amount of private investment). Overall, these functions go wider than enterprise alone. The approach to the inner cities is inevitably going to have to be co-ordinated between a number of departments, and the various programmes currently run by the MSC should give a new Department of Enterprise a sufficient lever to encourage inner city enterprise without taking over the whole of DOE's interests in this area, though some change at the margin might be considered.

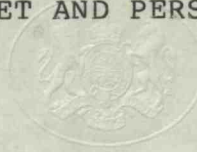
9. DOE also contains a Regional Policy Division whose main task is the co-ordination of applications for grants from the EC Regional Development Fund (ERDF) for infrastructure projects. This could more easily be transferred to a Department of Enterprise, and the central co-ordination of ERDF grants would be less involved if handled by one department rather than the present two (DOE and DTI). But DOE's Regional Policy Division is a smaller function than Inner Cities or the Merseyside Task Force and I suspect that whether it should transfer to a Department of Enterprise is a second order question.

10. Having considered whether there is a case for including more than envisaged in your minute in any new Department of Enterprise, the Prime Minister may also wish to consider whether the model in your minute would place in the new department any functions which need not be there. Three areas seem worth further thought.

11. Whether the Unemployment Benefit Service (UBS) currently in DE, and the associated policy responsibility for benefits to the unemployed currently in DHSS, have a significant link with

enterprise may depend on the view taken of the purpose the policy is to serve. On the one hand, unemployment benefit can be seen as an insurance-based provision within the social security system. On the other, it may be seen as a feature of policy for dealing with unemployment as such. If the latter, the payment of benefit could be seen as a means of encouraging enterprise, for example by denying benefit to unemployed school leavers who refuse YTS, or moving in the direction of the "workfare" schemes operated by some of the United States of America. Lord Young is inclined to take the latter view, and therefore to argue for the transfer of policy responsibility for unemployment benefits to the Department of Employment. It does not seem to me to follow that in order to enable a Secretary of State for Enterprise to influence policy on eligibility for benefit he must necessarily also be given responsibility for the day-to-day payment of benefit performed by the UBS. The joint DE/DHSS study last year suggested that there would be efficiency benefits in combining policy and execution in a single department. I consider that the balance of advantage lies in that department being DHSS, not least for the cohesion of the Government's major social security reforms. My own conclusion would therefore be that the UBS is not a necessary part of a Department of Enterprise, that it would be best transferred to DHSS, and that the Secretary of State for Enterprise should be given an input to benefit policy, by membership of the appropriate Cabinet Committees and in other ways as appropriate.

12. If the Prime Minister agreed with that view, she might wish to consider whether it strengthened the case for dividing the present DHSS into separate Departments of Health and of Social Security. That issue is not directly linked to the formation of a Department of Enterprise and may be better considered in the context of setting up executive units, as proposed in the Efficiency Unit scrutiny. But I will comment on it separately if the Prime Minister would find that helpful.



Health and Safety

13. DE's present responsibilities for health and safety at work, discharged mainly through the Health and Safety Commission and Executive, seem more concerned with regulation than with enterprise. My own inclination would be to omit them from a Department of Enterprise, to avoid both an unnecessary weighing down of what promises to be a large new department, and the risk of charges that health and safety might be compromised in the interest of enterprise. They could then go to the new "regulatory" Department (see paragraph 16 below).

Industrial Relations

14. This DE responsibility, to which the Advisory, Conciliation and Arbitration Service attaches, will be a high profile area if further trade union law reform is contemplated. It can be seen as enterprise-related, at least in the negative sense of addressing a potential inhibition on enterprise, or it can be viewed as a regulatory function, operating on the labour market in something of the same way as competition policy operates on business activity. Which is the better view will depend on the direction the Prime Minister wishes industrial relations policy to pursue. If the focus is to be on trade union law reform, my own view is that industrial relations is not a priority for inclusion in a Department of Enterprise; it could over-burden Enterprise Ministers and divert them from the positive encouragement of enterprise, and it could be progressed equally well elsewhere.

15. If therefore the Prime Minister concludes that the benefit of a Department of Enterprise would justify the disruption of change, I would suggest that the core of the new department be formed by a merger between:



- i. the present DE responsibilities minus the UBS, health and safety, and industrial relations (but including of course responsibility for the MSC); and
- ii. the industry side of DTI.

This would create a substantial portfolio embracing seven Deputy Secretary line commands, plus support service units, and focussed on the positive fostering of enterprise. There would be four follow-on areas for decision.

Regulatory

16. I believe that, if it were decided to create a new Department of Enterprise on these lines, it would be right to brigade the present DE responsibilities for industrial relations and health and safety with the DTI responsibilities for company law, consumer affairs, financial services, insurance, insolvency and the Patent Office to form the core of a new regulatory department. The regulation of economic activity would be placed in a neutral context, severing some historical and possibly no longer apt associations linked to the notions of DE as a "Department for Trade Unions" and DTI as a "Department for Employers". The aim could be to strike a proper balance between the safeguarding of investors, managers, employees and consumers and the inhibition of excessive regulation, and to ensure that necessary regulation promoted competition on equal terms. There could be regulatory activities in other Departments which might sensibly be added to a regulatory Department, eg policy on occupational pensions and sponsorship of the Occupational Pensions Board currently the responsibility of DHSS. But these are secondary issues and would need consideration in detail.

Trade

17. DTI's functions relating to overseas trade sit with the Export Credit Guarantee Department (ECGD), which though a separate department reports to the same Secretary of State. Trade is a vital outlet for enterprise, and there would thus be a case for incorporating it within a new Department of Enterprise. It is, however, a substantial block of responsibilities - two Deputy Secretary commands in DTI and a third in ECGD - and would bring to ten the number of Deputy Secretary line commands (leaving aside support services) in the new department. That may not be unmanageable; DTI has ten at present. But it would make the new Department of Enterprise and Industry a "jumbo" department, and I wonder whether the Secretary of State would have sufficient time for all his responsibilities, even given generous provision of supporting Ministers.

18. If the Prime Minister concluded that the inclusion of trade would make the Enterprise portfolio too large, other options could include a small free-standing department, a link with the Trade Relations and Exports Department of the Foreign and Commonwealth Office, or (in my view probably best) brigading with the new regulatory department proposed above (UK regulatory policies could then more readily be informed by a comparative view of overseas regimes and the implications for international competitiveness, eg Japan).

Energy

19. The Department of Energy is small; and, once the electricity industry is privatised, will be even smaller. A merger which meant there was no longer a separate Department of Energy would reflect the reduced need for Government intervention in the energy sector in consequence of the privatisations of British Gas, Britoil, Enterprise Oil and



Amersham International, and the matching of supply and demand for oil at relatively low prices (though these will not necessarily last for ever). It could also yield some administrative economies of scale. The industry side of DTI would be a natural home, but whether this remained largely in DTI or transferred to a new Department of Enterprise, the Prime Minister would wish to consider the danger that the resulting group would overload the responsible Secretary of State. If that danger was felt to be overriding, an alternative might be a merger of Energy and Transport. This would be a marriage of convenience, but with some logic: energy and transport are each major users of the other, and privatisation and increased competition would be common policy themes. Other candidates for inclusion in a Department of Transport so enlarged would be the divisions of DTI dealing with communications, and possibly Water from the Department of the Environment. We should have to avoid creating a Water, Energy and Transport Department, as such, given the acronym that would be produced.

20. If, however, privatisation of the electricity industry is contemplated for the next Parliament, together with continued restructuring of and perhaps some increase in private sector involvement in the coal industry, I am not sure that a separate Department of Energy will have outlived its usefulness for a year or two yet. Electricity privatisation will make considerable calls on the time of the responsible Secretary of State, given that compared even to British Gas the industry is both significantly larger and significantly more complex in its present statutory structure. This might leave a Secretary of State for Energy still lightly loaded, but it could place a heavy burden on a Secretary of State who had also to discharge major non-energy responsibilities. Unless the Prime Minister sees a compelling need to abolish the Department in the immediate future, my own inclination would be to postpone this for a year or two until the major privatisations are complete.



Training

21. Your minute indicates that the Department of Education and Science (DES) would not be affected by the changes under consideration. The inclusion of the training responsibilities of MSC in a new Department of Enterprise would close the door on the option of a Department of Education and Training. This idea has enjoyed some support in the past, and one can make a case for it, but I think that the balance of advantage is swinging against a change in that direction: it is not entirely clear that a specific benefit would result, and DES Ministers will in the immediate future be fully occupied with initiatives within its existing responsibilities. Within the MSC's training functions, the Technical and Vocational Education Initiative is the programme which most notably straddles present boundaries; if in a year or two DES is in a position to exert greater influence on the financing of schools, that would be the time to consider a transfer of TVEI rather than training as a whole.

--- 22. At Annex 1 is a chart summarising the functional building blocks, some of which the Prime Minister may wish to reallocate if she decides to create a Department of Enterprise. The groupings I have suggested are outlined in red; support services (establishments, finance, legal, etc) are omitted, as are regional office networks.

Environment and Agriculture

23. If the Prime Minister decided to proceed with a Department of Enterprise, there will be much to be said for stability in departmental structures elsewhere while that major change was carried through. Nonetheless, there is a case for considering an early change to the present allocation of responsibilities between DOE and MAFF. First, there are now a number of substantial policy issues which sit with difficulty on the boundary between the two departments: alternative uses for



agricultural land, pollution, flood defence and land drainage (the last important as an aspect of water privatisation). Secondly, the present DOE is looking overloaded with high profile issues: in addition to those already mentioned, the Government is for example committed to legislation in the first Session of a new Parliament to reform rating in England and Wales and to a major Bill on housing policy, and other initiatives may be contemplated for local government. Water privatisation is also envisaged early in the new Parliament.

24. There is a case for brigading the present MAFF responsibilities with DOE's responsibilities for rural affairs (countryside, wildlife and the Development Commission), pollution, waste disposal and water in a new department embracing non-agricultural as well as agricultural interests in land, the atmosphere and perhaps water - which might be called a Department of Rural Affairs (DRA). The remainder of DOE would effectively comprise a Ministry of Housing and Local Government (MHLG).

25. The core of the new department would be the agriculture wing of MAFF and the Environmental Protection Deputy Secretary command in DOE. A major purpose would be to realign policies so as to reflect the reduced requirement to dedicate rural land to agricultural production, the continuing demand for economic and social development in rural areas, and pressure for increased priority for conservation and leisure access to the countryside. Such a new department might be welcomed in a number of quarters, and indeed could steal the thunder from some proposals discussed by the Opposition parties; it could well of course encounter objections from the farming lobby that it lon longer had a department dedicated primarily to agricultural interests.

26. If the Prime Minister wishes to consider this approach, the range of options is simpler than for a Department of Enterprise. Points for consideration would include:



a. Fisheries and Food. These MAFF responsibilities could on one view be seen simply as sponsorship of two industries, and allocated accordingly to the industry side of DTI. But, apart from risks of overloading, there seems little clear benefit in such a change, and the opportunity would be lost to link the environmental aspects of fisheries and food (for example, work on the effects of discharges of radioactivity) with parallel DOE interests.

b. Planning. At first sight it would be attractive to add planning to the functions passing from DOE to the new department - given that policy on alternative land uses must look to the planning system as one means of implementation. But planning covers town as well as country, and is a mechanism for allocating land resources amongst competing claims not only from agriculture and conservation, but also from housing, transport, industry and commerce. Moreover, the resources of manpower engaged on planning, policy and activity could not readily be split up between the departments. I conclude that planning would stay in the MHLG.

c. Ancient monuments, historic buildings, sport and recreation. These responsibilities, currently in DOE, would seem less appropriate to an MHLG. Nor would they really fit in a new Rural Affairs Department; none of these responsibilities are by any means exclusively rural. If other changes were being made, I should be inclined to brigade those responsibilities with the Office of Arts and Libraries (OAL); there is in any case a good argument for transferring to the OAL the heritage responsibilities now covered in DOE. Such a change would go far to making OAL truly viable as a separate department, even if it was usually headed by one of the "sinecure" Cabinet Ministers (the Paymaster General or the Chancellor of the Duchy of Lancaster).



27. The functional building blocks in the DOE/MAFF area are summarised in the chart at Annex 2.

Further Work

28. Underlying the options in both the Enterprise and DOE/MAFF areas there are a number of more detailed points, including:

a. Scotland and Wales: for example, the MSC currently reports to the two territorial Secretaries of State as well as to the Secretary of State for Employment;

b. support services and regional offices: these would need to be reorganised to serve any new departmental groupings;

c. implications of Scrutiny of Management in the Civil Service: merging the MSC into DE as envisaged in your minute could appear contrary to any recommendation in favour of separating off executive functions, though other possible changes such as dispensing with a tripartite Commission would not be exposed to this objection;

d. implementation: very broadly, it seems likely that changes in the Enterprise area could be achieved by administrative action, with a tidying-up Transfer of Functions Order, that changes in the DOE/MAFF area would require at least a Transfer of Functions Order, and that change to the constitution of the MSC would require legislation. Parliamentary Counsel would need to be asked to advise at an appropriate point.

29. If the Prime Minister wishes to carry work on some or all of these options further, I should like, if she is prepared to approve this, to sound out the Permanent Secretaries whose Departments might be involved. There would also of course be



advantage in the discussion with Lord Young suggested in your minute, and indeed with any other Ministers involved.

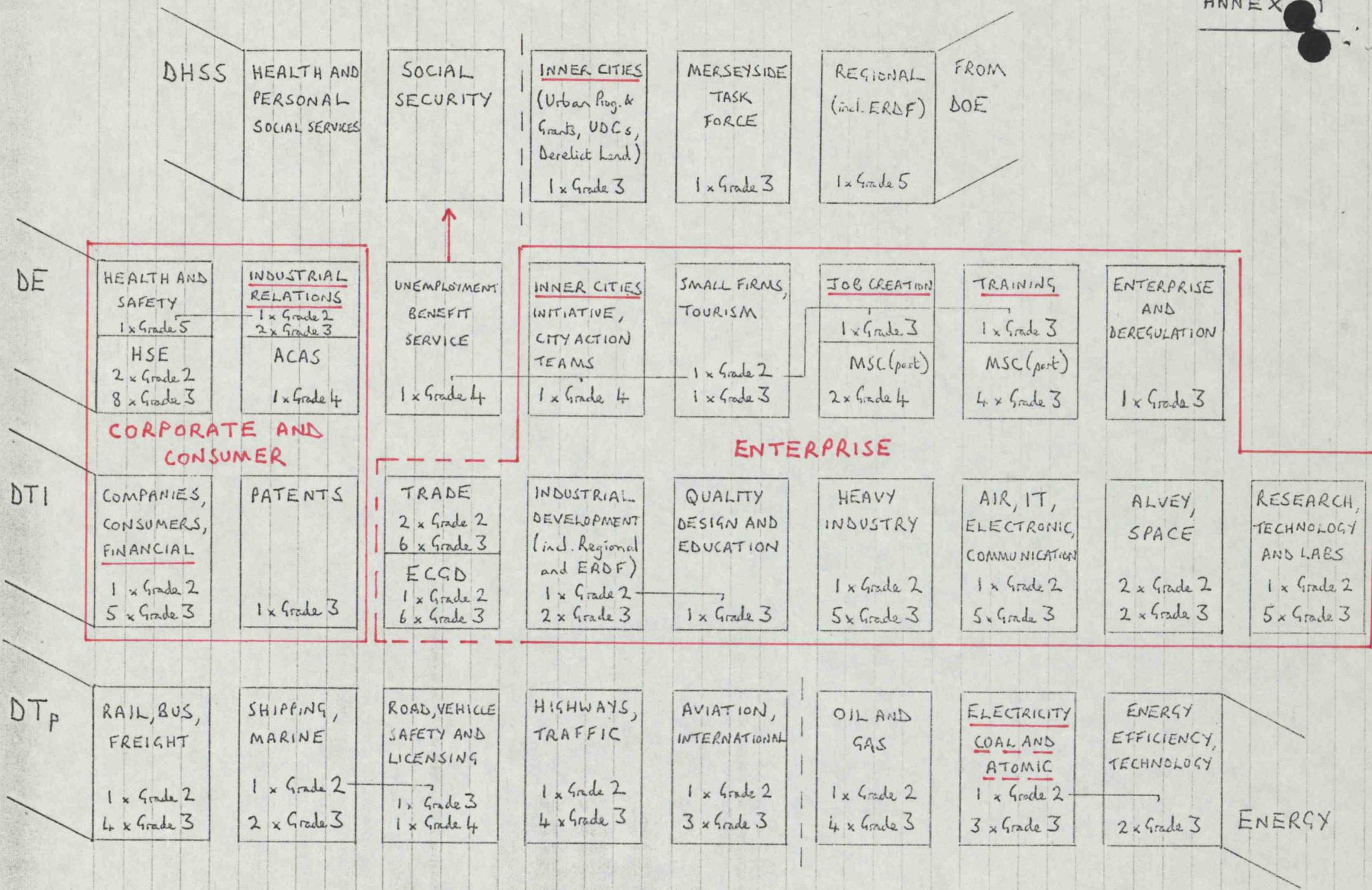
30. I am sending Sir Robin Ibbs a copy of this minute.

RA

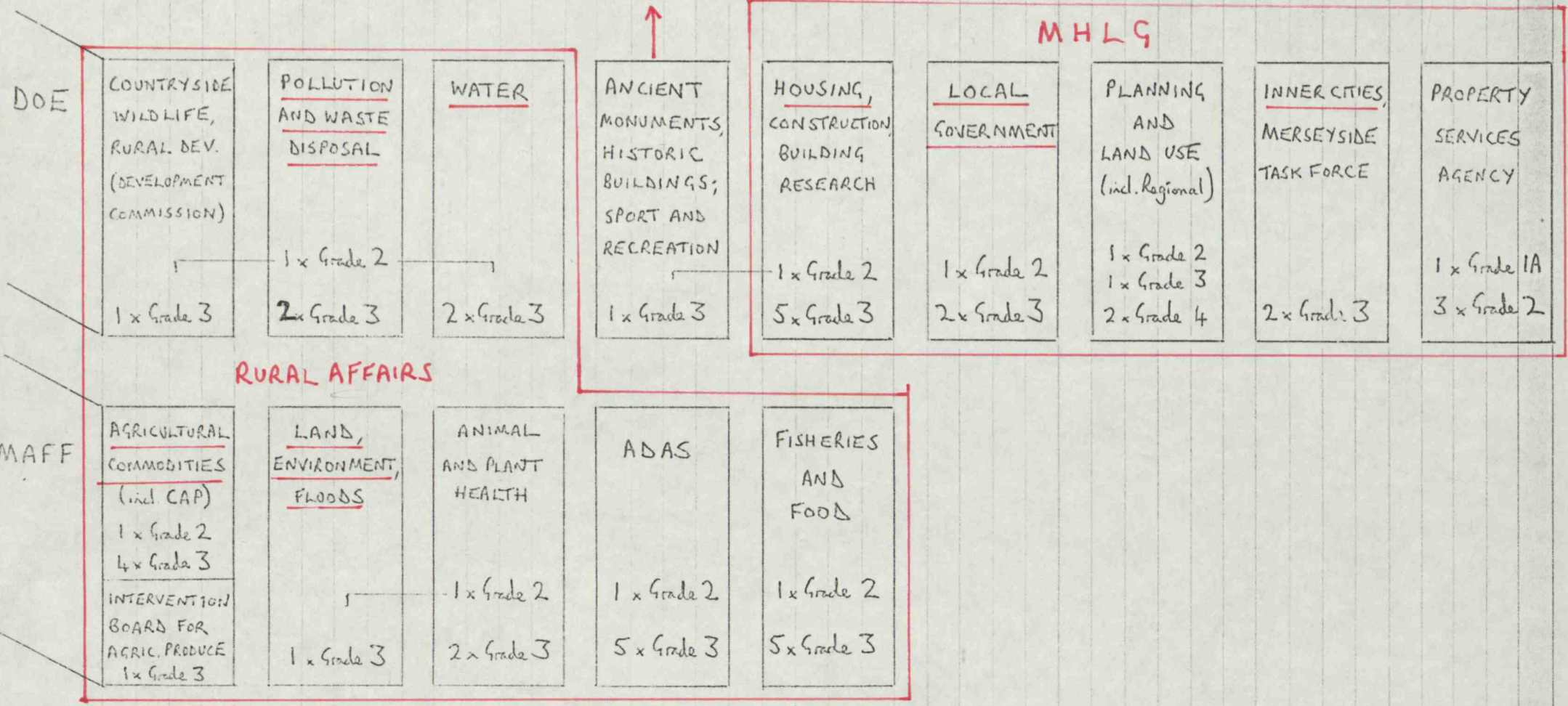
ROBERT ARMSTRONG

24 April 1987

CONFIDENTIAL



OAL
 ARTS AND LIBRARIES
 1 x Grade 2
 3 x Grade 5



Prime Minister

(2)

Ref. A087/1137

MR WICKS

Do you want to
do any work with RTA next
week? Yes Mr
W.L.U.

Possible Machinery of Government Changes 24.4

A---
B
C I attach a memorandum about possible machinery of Government changes after an election; and a note about the Chancellor of the Exchequer's proposal of 31 March.

Enterprise and Industry

2. The present departmental structure is essentially based on a distinction between "industry" - the things that involve management - and "labour" - the things that involve workers. The division between the Board of Trade and the Ministry of Labour and their successors began in 1919, and has persisted ever since. It has given management its Minister and department in Government, and has provided a Minister and department identities primarily concerned with the affairs of "workers" and with relations with organised labour. This distinction is now arguably out-dated. The restructuring envisaged in these proposals would be based on a distinction between the Government's roles in encouraging "enterprise" and in providing "regulation" to hold the balance where the interests of management, labour and consumers conflict. What is suggested is a Department of Enterprise, which could take on the employment service, training, job creation, small firms and tourism divisions of the Department of Employment and the Manpower Services Commission (if Ministers were prepared to wind that up) and the industrial policy and promotion divisions of the Department of Industry; and a Department of Corporate and Consumer Affairs which would take industrial relations and

health and safety from the Department of Employment, and the regulatory work on companies, financial services, patents and competition policy now done by the Department of Trade and Industry.

3. There are two main loose ends in this: responsibility for running the unemployment benefit service (UBS), and responsibility for commercial relations and trade policy. I recommend that the UBS should go to the Department of Health and Social Security; this has always seemed to make sense in terms both of the computerisation of social security and of the convenience of beneficiaries, and I am not convinced that it is necessary for the Secretary of State for Enterprise to be responsible for the payment of unemployment benefit in order to be able to exert influence upon unemployment benefit policy. As to commercial relations and trade policy, I recommend that, in order to avoid overloading the Department of Enterprise (which would otherwise be in danger of becoming a department no less unwieldy than the Department of Trade and Industry), they should go to the Department of Corporate and Consumer Affairs. And, since that department would then have most of the functions traditionally associated with the Board of Trade, it might well be so named.

Local Government and Environment

4. The rationale of the proposals here is to break up the over-large Department of the Environment, bearing in mind in particular the heavy load of controversial legislation which lies ahead in the area of local government and housing and which will place a considerable burden of administrative and parliamentary work on the Secretary of State. The proposal is to have a Department of Local Government and Housing, which would take over the Department of the Environment's responsibilities for local government, housing and planning; and a Department of Rural Affairs, which would take over the

Department of the Environment's responsibilities for the countryside, and for pollution and waste disposal, and all the responsibilities of the Ministry of Agriculture, Fisheries and Food.

5. The main loose ends here are water, "the heritage" and sport. Water is a relatively self-contained subject. While it could stay with Local Government, there is no particular reason for it to do so, now that water is no longer municipally managed, and it will represent a considerable legislative burden in the early years of a new Parliament. It could go with Rural Affairs. On the whole, I believe that the best home for it might be in the Department of Transport. "The heritage" and sport could be added to the Office of Arts and Libraries, which would then become a more viable department and could be a half to three-quarter size portfolio for one of the "sinecure" officers - the Chancellor of the Duchy of Lancaster, the Lord Privy Seal or the Paymaster General.

Energy

6. In the long run, I believe that the Department of Energy should be merged into another department: the Department of Enterprise (or Trade and Industry, if things stay as they are) or the Department of Transport are the obvious candidates. But I recommend that that should not be done until after the electricity industry has been privatised.

Financial Services

7. I share the Prime Minister's scepticism about the proposal that the Treasury should take over the Department of Trade and Industry's responsibilities for financial services. I think that it would be more sensible to leave these with the new Department of Corporate and Consumer Affairs (or Board of Trade), so that the Treasury can continue to exercise a general

oversight over the whole area of banking and finance, with the Bank of England and the Department of Corporate and Consumer Affairs (or Board of Trade) at the front line of the interface with the institutions and carrying the formal statutory regulatory responsibilities.

Legislation

8. I think that all this could be accomplished without primary legislation (Transfers of Functions Orders would probably be needed), unless Ministers decided to abolish the Manpower Services Commission or change its composition or functions: that would require primary legislation.

Next Steps

9. This study has been completed within the Cabinet Office on the basis of information available to it. I have not consulted any other department, or let it be known that such a study is in progress (though people are no doubt speculating about it). But I find that the ideas of Lord Young are well known to Sir Michael Quinlan, and those of Mr Ridley well known to Mr Heiser. If therefore the Prime Minister believes that she might wish to pursue these possibilities after an election, I should like to try them out privately on the Permanent Secretaries concerned. There need be no embarrassment about doing so, since they do not involve a reduction in the number of Permanent Secretaries unless and until it is decided to merge the Department of Energy into another department.

10. I am sending a copy of this minute to Sir Robin Ibbs.

REA

ROBERT ARMSTRONG

24 April 1987

B

Ref. A087/1136

MR WICKS
_____*Top enclosure*
Financial Services

E Your minute of 6 April asked for advice on the proposal of 31 March from the Chancellor of the Exchequer.

2. Bringing now divided Treasury and DTI responsibilities for financial services together as a whole would bring some apparent gain to tidiness, and could be said to mirror the diversifying product ranges of hitherto distinct types of financial institutions. (An example may be that banks, regulated by the Bank of England and ultimately the Treasury, also manage unit trusts, regulated by DTI.) And I can see the force of the argument that to brigade these functions in DTI would cause duplication of work with the Treasury's inevitable continuing interest.

3. But I am not clear that specific shortcomings have arisen from the present allocation of responsibilities. For instance, the activities of those parts of the City that are currently DTI's responsibility do not seem to have the same scope for adverse impact on the Government's monetary and fiscal policies as the banks or the international money markets. Nor is it clear that tangible benefit would result from a change. This may in part reflect the point that the future shape of financial services is still developing, as institutions respond to the Big Bang and the new regulatory regimes which are only now coming to bear (indeed, legislation to establish the Serious Fraud Office is still before Parliament). It may be best to wait until the impact of these changes is clearer before reviewing the allocation of departmental responsibilities.



4. It is also the case that, while the note attached to the Chancellor's minute is expressed in terms of regulatory functions, DTI currently in addition performs a sponsorship role in respect of financial services, exemplified by the recent visit to Japan by the Parliamentary Under Secretary of State for Corporate and Consumer Affairs. Such a role might not sit equally well in the Treasury.

5. It is not only that I am not persuaded of the benefits of change proposed by the Chancellor of the Exchequer; I see positive benefits about leaving things as they are. Whatever department has the formal responsibility for policy on financial services has the statutory responsibility for administering the regulations and controls which govern those services, and its Ministers and civil servants must consciously be inhibited by the need to administer those regulations and controls fairly and in accordance with the law. So long as the Treasury is not directly responsible for, but is at one remove from, the statutory apparatus, it is less bound by these inhibitions, and can think and operate more flexibly and freely. I think (and I suspect that some people in the Treasury would agree) that the Treasury is better able to take a synoptic view of "the City" as a whole, if it lies behind the Department of Trade and Industry on the one hand and the Bank of England on the other, co-ordinating policy but not directly responsible for administering regulations.

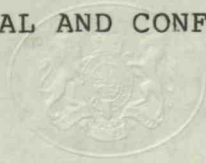
6. There would inevitably be some cost associated with a transfer of financial services responsibilities to the Chancellor of the Exchequer. First, it seems likely that a Transfer of Functions Order under the Ministers of the Crown Act 1975 would be required to transfer statutory responsibilities currently vested in the Secretary of State (if the Prime Minister wished to take the proposal further, we should need to confirm this with Parliamentary Counsel). Secondly, there seems to be a risk of an overall increase of one Deputy Secretary



post; the note attached to the Chancellor's minute suggests that the Treasury would probably require an additional Deputy Secretary, and it is not clear that DTI could give up a post following the proposed transfer (the DTI Deputy Secretary heading the two divisions proposed for transfer would be left with three substantial divisions dealing with Company Law, Consumers' Affairs and the Insolvency Service). Thirdly, staffing and accommodation changes at lower levels would impose cost, and difficulty in co-locating financial services staff alongside the existing Treasury.

7. All this leads me to the view that, unless the Prime Minister sees major advantage in early action on the Chancellor's proposals, the best course would be to review whether such a change might be desirable in two or three year's time. That view is reinforced by the possibility mentioned in your minute of 30 January (to which I am responding separately) that the Prime Minister may wish to create a Department of Enterprise. That would in my judgment be the higher priority. If that happened, I think that the responsibility for financial services that now rests with the DTI would become part of the responsibility of a new Secretary of State for Corporate and Consumer Affairs.

8. The Chancellor also mentions very briefly the possibility of transferring the Central Computer and Telecommunications Agency (CCTA) from the Treasury to the DTI. There are good arguments for such a move; when the CCTA was created in 1972, one of its constituent parts came from DTI and a recent consultants' report commissioned by DTI to look at the future of the computer services industry raised this as an option. If the Prime Minister considers that a transfer of CCTA might be attractive, I suggest that she asks for a fuller examination of the case for and against that change in its own right. It should not be contemplated simply as a quid pro quo for any change in relation to financial services. This proposal would



also be affected by decisions to redistribute the present responsibilities of the DTI, and would need to be considered in the light of whatever decisions were taken about that.

RA

ROBERT ARMSTRONG

24 April 1987

CONQUEROR



file VB

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

BC ||

The Prime Minister would be grateful for your advice on the proposal in the Chancellor of the Exchequer's minute attached that the Treasury should take charge of the whole financial services area, responsibility for which is at present split between the Treasury and the Department of Trade and Industry. You should know that the Prime Minister has commented that she believes that the note accompanying the Chancellor's minute is very general and she does not like the feel of it.

The Prime Minister would not wish you to consult the Department of Trade and Industry about this proposal at this stage.

N. L. WICKS

6 April 1987

PERSONAL AND CONFIDENTIAL

2

PRIME MINISTER

If you agree, I will ask Sir Robert Armstrong to provide some advice on the Chancellor's proposals below (obviously without consulting D.T.I.).

On the merits of the proposal, I see a case for bringing together into one body the regulation of all financial services, including banking. But I am less convinced that the Treasury is the right body for that work because

- i. the nature of the work and the skills needed are very different from traditional Treasury work and skills; and
- ii. the Treasury's senior management (both Civil Service and Cabinet Ministers) are already hard pressed.

There may be a way round this last point; e.g. creating a department, like Inland Revenue and Customs, separate from the Treasury under a Commissioner for Financial and Banking Services, but reporting to the Chancellor of the Exchequer, and with a specified Treasury Minister (FST, EST or the Minister of State) clearly and publicly in day to day charge. But all this needs to be thought through.

Ask Sir Robert Armstrong to consider?

N.L.W.

(N. L. WICKS)

3 April 1987

*Yes - the accompanying
note is very general and I
don't like the "feel" of it*



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

PRIME MINISTER

I expect that you will be giving some thought to possible machinery of Government changes after the election. There is one idea which I should like to put to you. This is that the Treasury should take charge of the whole financial services area, responsibility for which is at present split between the Treasury and Department of Trade and Industry.

The rapid pace of financial innovation and technical change has increasingly blurred the distinctions between different types of financial service - between insurance, securities, banking and building society products. Now that the legislative framework is in place, it is open to us to move to an organisation which is in line with market realities. This would allow us to co-ordinate the efforts of the different domestic regulators better, and to spot and fill in any gaps.

... I attach a note which discusses this in a little more detail.

If I might, I should like to offer a couple of thoughts where such a switch would leave the DTI - though I know there are many options. First, I should be happy to hand over the 500-strong Central Computer and Telecommunications Agency to the DTI. Responsibility for computers and information technology in the Civil Service would fit well with DTI's more general responsibility in these fields. Second, and more fundamentally, I believe there is a case for consolidating my old department, the Department of Energy, with the DTI. This would make increasing sense as we proceed with the privatisation programme, and would give the Department of Energy a more viable management and career structure.

PERSONAL AND CONFIDENTIAL



Needless to say, I should be more than happy to discuss this with you at any time.

N.L.

N.L.
31 March 1987

RESTRUCTURING THE REGULATION OF FINANCIAL SERVICES

1. Responsibility within Whitehall for the regulation of financial services is currently divided between the Treasury (in part via the Bank of England) and the DTI. In terms of financial institutions, the Treasury/Bank have regulated those that take deposits while the DTI have regulated those that deal in securities and those offering insurance services. This distinction may have had some logic in the past; it has little today. The breakdown of the functional boundaries within the financial sector, culminating in the Big Bang, has created a new situation. The Treasury/Bank has taken on responsibility for regulating dealers in certain securities (gilt-edged) and are clarifying the locus of responsibility for supervising the wholesale money markets. But with the disappearance of the boundary between banks and securities houses the old division of departmental responsibilities needs a fundamental reassessment.

Rationale for Change in Whitehall

2. Whitehall must adjust to the changes taking place in financial markets. The fact that the UK has been ready to modify its regulatory framework to keep pace with these changes has given London and the UK financial services industry generally an edge over its competitors. But, given the pace of change, making the present structure work is going to be hard going. The various regulatory bodies - the Bank, the Building Societies Commission and the SIB and its associated SROs - will have to work very closely together to develop common standards and to avoid unnecessary overlap.

3. Over the past few years, Whitehall departments involved in this area have been preoccupied with legislation. With the passing of the Banking Bill, the main legislative effort should, for the time being, be over. Whitehall's main job for the next few years will be to promote co-ordination between the various domestic regulators - essential if the new framework is to have a reasonable lease of life - and to secure better

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international co-operation on supervisory issues. The underlying objective will be to ensure the stability of the financial system at a time when rapid change is creating new and unfamiliar risks.

4. Against this background, the present division of responsibilities between the Treasury and the DTI (see attached table), largely the product of historical accident, is becoming increasingly illogical and untenable. In the past there may have been some sense in separating the regulation of deposit taking from the regulation of dealing in securities, and tying the latter in with company law. But developments within the markets, such as the increasing securitisation of lending, are making this obsolete. Today no regulatory boundary within the financial services sector is likely to make much sense; probably the only tenable distinction for the future will be between financial services on the one hand and commerce and industry on the other.

5. If responsibility for financial markets were concentrated in one department Whitehall would be better placed to co-ordinate the efforts of different domestic regulators, and to play a positive part in promoting international co-operation. It would also be in a better position to monitor the adequacy of the present legislative framework, to fill in the gaps, as and when necessary, and, eventually, to plan for a more integrated system of supervision.

6. The natural locus for this work is the Treasury. In most other countries, the Ministry of Finance has departmental responsibility for regulating securities as well as banking: examples include Japan, Switzerland and France. The Treasury's responsibility for macro-economic and monetary policy means that it is necessarily concerned with the operation and stability of financial markets. For the same reason, the alternative of concentrating supervisory responsibilities in the DTI is likely to lead to duplication of effort, since the Treasury is bound to retain a major interest in the health of the financial system, whatever the formal position. And in practice

PERSONAL AND CONFIDENTIAL

the Bank will have a major role to play in co-ordinating the efforts of different domestic regulators over the next few years. It would be wasteful of time and resources for the Bank to try and duplicate with the DTI the sort of relationship it has with the Treasury.

Practicalities/Resources

7. The attached organisation chart shows the present structure at DTI. We would envisage transferring work currently done in DTI by the Financial Services Division (one Under Secretary and four Assistant Secretaries - though this may reduce anyhow as the Financial Services Act is implemented), and the Insurance Division (one Under Secretary and four Assistant Secretaries - plus a large HEO/EO complement and corresponding caseload). It is difficult to see how insurance can be separated off from other financial firms. (The DTI's present responsibilities for the direct regulation of the insurance business is unaffected by the Financial Services Act; EC directives may constrain the extent to which this responsibility can be delegated to eg the SIB.)

8. We see no case for transferring the Companies Division, or the work of Companies House, much of which is to do with non-financial companies. Decisions about Companies Act investigations would therefore stay with the Secretary of State. It would be for consideration whether decisions about comparable investigations into financial firms, under the Financial Services Act, should be transferred to the Chancellor.

9. As far as the Treasury is concerned, this work would probably require an extra Deputy Secretary, and at least one additional Under Secretary, and maybe two, depending on how far the amalgamation of DTI Financial Services Division and the Treasury Financial Institutions and Markets Division allowed staff savings. It would also involve the Treasury in executive type work that it has hitherto avoided and bring with it responsibility for troublesome areas such as Lloyd's. All

PERSONAL AND CONFIDENTIAL

this would radically change the character of its role in supervision, but for the reasons given above the benefits of such a change should outweigh the costs.

REGULATION OF FINANCIAL SERVICES: DEPARTMENTAL RESPONSIBILITY

Sector	Regulator	Legislation	Sponsor Dept
Banks	Bank of England	Banking Act	HMT
Gilt edged market	Bank of England (delegated from SIB)	Financial Services Act	HMT
Wholesale money and foreign exchange market	Bank of England	Non-statutory*	HMT
Building Societies	Building Societies Commission	Building Societies Act	HMT
Friendly Societies	Registry of Friendly Societies	Friendly Societies Act	HMT
Securities (Stock Exchange; licensed dealers; unit trusts etc)	SIB/SRO's	Financial Services Act	DTI
Insurance			
- gen insurance business	DTI	Insurance Companies Act	DTI
<u>Others</u>			
- Lloyd's	Lloyd's	Lloyd's Act	DTI
- Takeovers	Takeover Panel	Non-statutory* (Companies Act/ Financial Services Act)	DTI

* may require legislation in time.

PERSONAL AND SECRET



10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

When the Prime Minister saw Sir Robin Ibbs earlier this week, she asked him to consider the implications of, and to give her advice on, the possibility of certain changes in machinery of Government; namely the creation of an Enterprise Ministry based on the Department of Employment and taking in certain functions of the Department of Trade and Industry (like regional policy), and the merger the Department of Energy with the remainder of the Department of Trade and Industry. The Department of Education and Science would not be affected.

These ideas are, I know, very tentative in the Prime Minister's mind. But she would welcome advice from Sir Robin and yourself on the case for the changes and on the possible permutations. You will also wish to note that another possibility in the Prime Minister's mind is the transfer of the policy for, and perhaps the responsibility for administration of, the unemployment benefits service from the Department of Health and Social Security to the Department of Employment and the merging of the Manpower Services Commission into the Department of Employment.

Could I suggest that Sir Robin should discuss with you how best to pursue these issues so that he can give his views to the Prime Minister. I think that she will want to discuss the issues with him in due course. No hint of any of this should reach any of the departments concerned though at a later stage, following a further word with the Prime Minister, you might find it helpful to have Lord Young's views.

I am copying this minute to Sir Robin Ibbs.

N L WICKS

30 January 1987

PERSONAL AND SECRET

Grey Scale #13



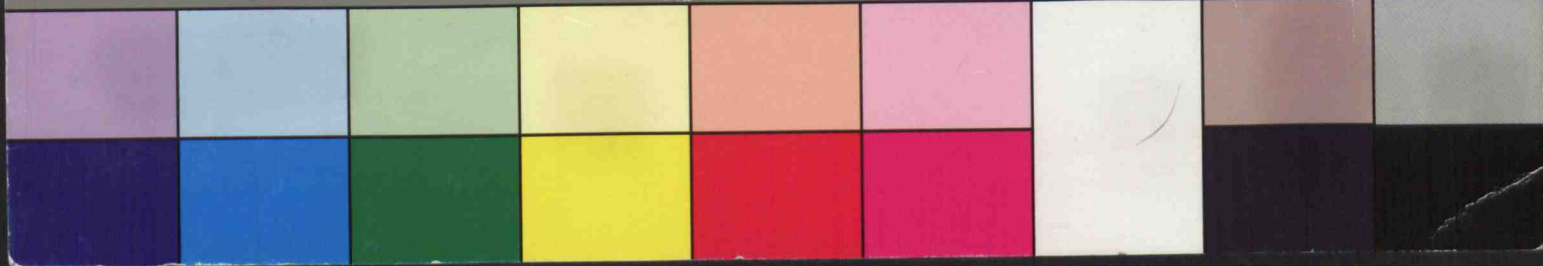
A 1 2 3 4 5 6 **M** 8 9 10 11 12 13 14 15 **B** 17 18 19



Inches 1 2 3
Centimetres 1 2 3 4 5 6 7 8

Colour Chart #13

Blue Cyan Green Yellow



END