

cc A Duguid

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

11 February 1980

The Rt Hon Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Whitehall SW1

John Gubbay

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GOVERNMENT INDUSTRIAL ESTABLISHMENTS

We have had a number of discussions about the determination of public service sector pay and I see from your paper E(80)8 that we are due to discuss it again on Wednesday. Some limited progress has been made in injecting those vital elements - supply and demand, geographical differences, efficiency, job security and pensions - into pay determination in the service sector so that it is subjected to at least some of the disciplines of the market and I hope that we can do more. But, without wishing to prejudice the discussion about decentralisation, I suspect that progress may be difficult or unacceptably slow in some areas and I suggest we should turn our minds to what the radical alternatives are.

I am not responsible for any industrial establishments but the Department of Industry is responsible for a number of research establishments (REs). I am making arrangements for the REs either to be transferred to the private sector, as is happening with the National Maritime Institute, or to become more responsive to commercial pressures by requiring them to fund an increasing portion of their work under contract from the private sector. These arrangements are introducing a greater degree of commercial discipline whilst simultaneously reducing the size of the Civil Service. Public expenditure savings also result.

Should we not examine urgently the extent to which similar arrangements could, and should, be applied to the various Government industrial establishments? Many may be carrying out manufacturing operations which are largely indistinguishable from those carried on in the private sector. For example, the Royal Mint seems to be fundamentally no different to companies like the Birmingham Mint and we may need to consider whether coin manufacture needs to be under Civil Service control at all. Many overseas governments appear to be entirely content to procure their coins from companies which are not even located in their national territories, let alone under their direct control. Similarly, many of the more routine activities of the Royal Ordnance factories,

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such as shell production or tank construction, could be carried on in the private sector. (I would not, of course, argue that it would be appropriate to attempt to privatise such sensitive establishments as ROF Burghfield). HMSO and the Royal Dockyards also seem to me to be areas where we might reconsider whether those carrying out industrial activities need to be covered by Civil Service terms and conditions of service.

There are a number of potential advantages of moving further in the direction of privatisation. In the first place, by transferring to the private sector some of the Government's industrial activities we should reduce the number of civil servants. Secondly, it should be easier to control the numbers and efficiency of those involved in the activities that it was essential to retain. Thirdly, subjecting management and workers to the discipline of the private sector where jobs are at risk should help achieve some measure of restraint in pay settlements and limit the scope for pay determination by comparability, with its imperfections.

Against this general background I wonder whether there might not be scope for a general review of the Government's industrial activities. While considering the question the thought occurred to me that there might be scope for selling the Bank of England's banknote printing operations to the private sector and, in particular, its 30% shareholding in Portals. I understand that many overseas governments buy their banknotes from De La Rue and there seems no reason why the Bank should own its own printing operations. It would be interesting to know whether the notes issued by the Scottish clearing banks are printed by private sector companies. This, however, is a question outside the scope of the review I have in mind.

I am sending copies of this letter to other members of E Committee and Sir Robert Armstrong.

Kevin
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