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*replying called
by clear for
consideration by new
nat-industry committee
under PM*

PRIME MINISTER

CPRS STUDY OF RELATIONS BETWEEN GOVERNMENT AND NATIONALISED INDUSTRIES

*clear-
reading*

Your minute of 4 August invited Ministers responsible for nationalised industries to submit proposals for rapidly increasing business understanding and expertise within their Departments.

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I propose to build up business expertise at senior and middle management levels in a way which will directly strengthen the competence of the Department's relevant dealings with the industries, win their confidence in this enhanced capacity and yet not undermine the allocation of clear responsibility for the totality of business, political and social considerations which characterise the relationship between nationalised industries and Government. I propose both to create a central source of financial and commercial expertise and to strengthen commercial attitudes and expertise within policy making areas. The attached paper explains my approach in more detail. These proposals will entail a requirement for about 10 additional posts, mainly inward secondments or people on period appointments. I am advised that finding even 10 extra posts from within the staff ceilings approved for my Department may not be possible. I will be reviewing the D/Energy staff situation over the next few weeks and meantime therefore must keep open all the options regarding this new commitment.

18/15

May I add one general comment. To extract maximum gain from our enhanced business expertise, we need to ensure that it is available right through the system for controlling the nationalised industries. The new Ministerial Committee and its support staff will have an important role to play in evaluating priorities between the different industries and, in particular, in the collective consideration of

/proposals

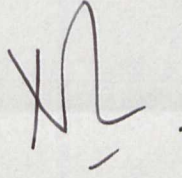
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proposals for public investment. I therefore hope that Geoffrey Howe might also be able to call on enhanced resources for the Treasury's crucial role overall.

I am copying this minute to recipients of yours.



Secretary of State for Energy

17 September 1981



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DEVELOPING BUSINESS EXPERTISE WITHIN THE DEPARTMENT OF ENERGY

The CPRS study of the Government's relationships with nationalised industries concluded that sponsor Departments needed to develop their capacity to evaluate the nationalised industries' proposals and performances from a business standpoint. This note sets out my proposals in this respect.


The Task

The Department of Energy supervises three major nationalised industries (gas, coal and electricity) in addition to its responsibilities for BNOC, the UKAEA, and BNFL. Supervision of public bodies accounts for about half of the Department's work. Other tasks eg negotiations with oil companies and the placing of research contracts, call for a high order of financial expertise.

At the same time, proposals and developments which need to be assessed with an experienced business eye usually have sensitive social and political implications, eg decisions on fuel prices. The CPRS proposals to concentrate financial expertise primarily in separate business groups could detract from the development of properly integrated policies which reflected adequate consideration of problems from all standpoints. Business skills should be injected into the heart of the Divisions responsible for the industries as a whole.

A plan for the Department of Energy should:-

- a. provide a high level of financial expertise to be applied wherever it is needed within the Department;
- b. introduce financial expertise into those Divisions which exercise overall responsibility for the major nationalised industries;



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c. ensure that overall Divisional responsibility for policy towards an individual industry is not split, but rests unambiguously with the specialist Division.

The Current Position

Over recent years various measures have been taken to develop the Department's business capability:

a. Recruitment of direct entry Principals

A significant proportion of the middle management grades were recruited through the direct entry Principal competitions. Many had extensive industrial experience. The top three posts in the Gas Division are now filled by people recruited in this way who can draw on a combined experience of over 20 years with BP, Texaco and Unilever.

b. Secondments

These have been arranged both directly to the nationalised industries and to private industry. The current Head of Electricity Division was seconded for 18 months into the post of Deputy Chairman and Chief Executive of the Midlands Electricity Board. Current secondments include an Assistant Secretary with British Aerospace and a Principal with the New York merchant bank, Goldman Sachs.

c. Part-time Directorships

These yield experience of and insight into the working of private industry. Four have been arranged so far for Under Secretaries and Assistant Secretaries from nationalised industry Divisions and the Atomic Energy Division.



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d. General Numeracy

Administrative grades in the Department of Energy already include an unusually high proportion with analytical and numerical skills (scientists, engineers, mathematicians, economists, etc educated to degree level and beyond). Of total administrative staff at Principal level and above, over 40% have such qualifications.

There already exists a sound base on which I intend to build further.

Further Steps

I propose the following measures:-

- a. to designate posts at middle management level in the Gas, Electricity and Coal Divisions to be filled by people with relevant experience in corporate finance, seconded or recruited from the private sector if necessary. Their job would be to monitor and evaluate the commercial and financial performances of the industries;
- b. to establish a small core of specialist financial and industrial expertise, to work closely with the nationalised industry Divisions and to provide expertise and advice wherever it is needed on other activities in the Department. It would be led, at a level equivalent to the head of a nationalised industry division (Under Secretary) by someone with relevant experience in the business world, recruited on secondment or period contract;
- c. to increase the number of outward secondments of Principals to enable them to gain deeper experience of industrial and commercial problems. This will build up to a cadre of expertise for the future to be deployed in nationalised industry and other Divisions.



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The main task of developing policies towards the individual nationalised industries would remain with the Divisions currently responsible. This recognises the fact that the financial and commercial actions of the industries have an important political dimension and cannot be considered in isolation. The nationalised industry Divisions would however be significantly reinforced both internally and by the business unit.

Implications for Staff Numbers

Such a build-up of the Department's capacity would have implications for staff numbers and costs. (This was recognised in relation to the CPRS proposals at your discussion on 4 August). To the extent possible we would seek to balance inward recruitment by further outward secondments. But we shall need for this task about 10 people, at an estimated cost of about £300,000 p.a for the cost of salaries, superannuation and national insurance contributions.

Department of Energy

17 September 1981