



cc Mr Dignia
Mr Wolfson

PRIME MINISTER

MS

This, and other Departments' responses to the CPRs reported are being collated by the CPRs - with a view to a meeting under your chairmanship at the end of October.

THE RELATIONSHIP BETWEEN GOVERNMENT AND THE NATIONALISED INDUSTRIES

In your minute of 4^{pt 4} August to John Biffen you asked sponsoring Ministers to let you have their proposals for a rapid improvement in the business experience and understanding of staff dealing with the nationalised industries. This is one important aspect of the wider problem of monitoring and control on which the CPRS is to let us have a paper to be taken in E(NI). (meeting set for 27 October) 3/5

2 The performance of the nationalised industries for which this Department is responsible, in particular their heavy losses and the burdens they have placed on the PSBR, means that a great deal more has to be done to improve their management efficiency and tighten the monitoring arrangements in the Department to the extent needed. I have not yet had the opportunity to give this problem the attention it deserves and this note is therefore an initial response to your request.

3 Officials need to improve their capacity to probe and assess the arguments put forward by the industries. But the main responsibility for improving the nationalised industries' performance rests with their managements, so the first priority is to install, and to support, effective Chairmen and Board members. We must resist the temptation to convert effective monitoring into attempts to "second-guess" the managements on matters of commercial judgement.



Sponsorship arrangements

4 I do not favour putting all the sponsorship divisions in this Department together in one unit, as suggested by the CPRS, because:

- a the public enterprises for which I am responsible are not a functionally coherent group (for example, British Steel has little in common with the Post Office, or Rolls Royce with British Telecom);
- b the link in existing divisions between sponsorship of the public and private sectors of an industry makes good sense, particularly in the case of steel and vehicles, since I need to take account of the impact on the private sector of decisions affecting nationalised industries. It is hard enough now to hold the ring in disputes between the public and private sectors of an industry - to split responsibilities would make matters worse; and
- c segregating public enterprises is against the trend of our privatisation policy.

5 The Divisions sponsoring nationalised industries already use the advice of accountants, economists, people from the financial sector and from industry seconded to the Department's Industrial Development Unit (IDU) and (in appropriate cases) engineers and



are adopting a multi-disciplinary approach to monitoring the industries' progress. The Department has found that it is more effective to make all the necessary expertise available to sponsoring divisions on a continuing basis in this way rather than in the form of ad hoc advice. The advantage of this approach is that those with professional experience can work closely with those in sponsorship divisions and become thoroughly versed in the specific characteristics and problems of each industry. I propose, therefore, to build on this existing practice by reinforcing the multi-disciplinary approach.

6 Where appropriate, representatives of the Treasury and CPRS can be associated with this multi-disciplinary approach to monitoring; for example, the Department has benefited greatly from Treasury and CPRS contributions to recent work on the telecommunications investment programme. I should also mention that several of the sponsorship divisions have drawn on the business experience of my Special Adviser, David Young, and have found his help invaluable on a number of important issues.

Longer postings

7 It is already policy to arrange longer postings but implementation has difficulties. The need for continuity in relationships with the industries is fully recognised but in my view, if officials were restricted to a career mainly spent in sponsorship of public enterprises, their experience would be narrowed to an undesirable extent. They would be deprived of the



opportunity to learn how the private sector orders its affairs and to see how competition, the profit motive and the risk of bankruptcy improve performance in practice. The result might be to create a like-mindedness between officials and their opposite numbers in the nationalised industries and to obstruct our desire to see more private sector disciplines and pressures applied to state enterprises.

Business skills

8 These are as necessary for intelligent sponsorship of private industry as for public sector work. The Department of Industry has a good record in building up a pool of such skills.

9 Apart from business people seconded here, the Department has 25 direct entry principals with commercial or industrial experience, of whom 14 have held posts related to public enterprises. A growing number of officials have benefited from secondments to industry and from the scheme for part-time non-executive directorships in leading companies. (Since 1978 62 officials have been seconded to industrial or commercial organisations and 58 people have been received on secondment from such organisations). The recruitment of direct entry principals has unfortunately ceased as part of the manpower reduction programme. I suggest that we should consider lifting this restriction in order to recruit a limited number of people with industrial experience.

10 The Department is:



- a planning an intensified effort on exchange postings with industry;
- b considering secondment of more officials to public enterprises (secondments to BL and British Shipbuilders for example have proved valuable, as have inward secondments from the Post Office);
- c continuing to recruit people of high quality from business on secondment to the IDU;
- d considering a widening of the range of skills imported into the IDU, which is mainly financially oriented at present; and
- e expanding the non-executive directorship scheme from the existing 10 posts.

These measures will increase the number of people suitably qualified for sponsorship work.

Training

11 The Department is reviewing its in-house training with the object of providing courses specially relevant to the needs of divisions sponsoring nationalised industries. Participation in



such courses could be offered to staff from the industries. The industries will also be asked to provide short "familiarisation visits" for officials joining sponsorship divisions. Officials are already taking part in courses run by private sector businesses and this might be extended to nationalised industry training courses.

12 A few officials have been sponsored on graduate courses at British and American business schools but this is an expensive form of training which cannot be made widely available.

13 I believe that the Department has already taken many steps to build the business dimension into its relations with nationalised industries. I plan to reinforce this impetus in every practicable way.

14 I am copying this minute to the recipients of yours.

A handwritten signature in blue ink, appearing to be 'PJ', located below the text of paragraph 14.

P J

28 September 1981

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