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cc JV

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
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Secretary of State for Industry

20 September 1982

John Sparrow Esq
Central Policy Review Staff
70 Whitehall
London
SW1A 2AS

NBPM

MS 22/9

Dear Mr Sparrow,

NATIONALISED INDUSTRY OBJECTIVES: THE POST OFFICE

Thank you for your letter of 8 September to David Saunders.

We accept that there has been useful discussion on Post Office objectives since last December, but I think our discussions have shown how difficult it is to set clear cut objectives for a body which under statute has a number of different obligations.

2 So far as the review of long term strategy for the Post Office is concerned, the Secretary of State, as he said at his meeting with you on 12 July, is anxious that the Post Office should not be burdened with a full scale review and he would like to concentrate the study on the impact of new technology in the Post Office. I understand that preliminary talks have already been held between the Post Office, the CPRS and officials of this Department, and the Secretary of State will look forward to hearing about the outcome of the study in due course.

3 I am sending a copy of this letter to the Private Secretaries to the Prime Minister, other members of E(NI) and to Sir Robert Armstrong.

Yours sincerely

Caroline Varley

CAROLINE VARLEY
Private Secretary

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Policy

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CABINET OFFICE
Central Policy Review Staff
70 Whitehall, London SW1A 2AS Telephone 01-233 7765

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From: John Sparrow
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8 September 1982

David Saunders Esq
Private Secretary to the
Secretary of State for Industry
ASHDOWN HOUSE
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Dear David,

Nationalised Industry Objectives: The Post Office

I have seen a copy of your letter of 31 August to John Kerr.

I think I should make it clear that the CPRS criticism from which you quote read in full: "Statutory objectives, I am sure you will agree, are hopelessly vague. I think you need to bring them to Ministers' attention but they are not germane to business objectives."

This reflects the CPRS view that the present objectives exercise should go beyond statutory obligations and should seek to clarify what the Government really wants from nationalised industries - the point which the Chancellor makes in his 5 August letter on 'the overall character of Government policy for the particular industry'.

It would be unfortunate if recipients of your letter were left with the impression that there has been no further constructive discussion or progress on Post Office objectives since that December letter. In fact, the CPRS's 7 April note to Ministers (E(NI)(82)11) sets out various questions on the longer term development of the Post Office which it suggests Ministers need to answer before clear objectives can be defined. The CPRS therefore proposed that there should be a review of the long term strategy for the Post Office. The Post Office, the Department of Industry and the CPRS have agreed to work together on that review and will be starting on it in the next few weeks.

I am sending a copy of this letter to the Private Secretaries to the other members of E(NI), and to Sir Robert Armstrong.

Yours sincerely,

John

John Sparrow

MBPM MCS 1/9 cc JV

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Secretary of State for Industry

31 August 1982

John Kerr Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Dear John

NATIONALISED INDUSTRY OBJECTIVES

I am writing to let you have this Department's comments in reply to those contained in the Chancellor's letter of 5 August to my Secretary of State. We were a little suprised to receive further comments of a drafting nature at this stage, since the drafts which were sent to the Chancellor had already been agreed at official level with both Treasury and CPRS. I set out below the Department's reactions to the suggestions made.

The Post Office

The revised main objective now proposed in fact summarises part of the existing statutory duty of the Post Office. A clause on these lines was included in the original draft sent to the Treasury last December but it was criticised by CPRS as "hopelessly vague" and "not germane to business objectives", and was therefore withdrawn. However, we do not wish to resist the Chancellor's suggestion, as in our view objectives for the Post Office cannot be as clear-cut as the CPRS and Mr Hoskyns would wish.

National Giro

We are content to accept what the Chancellor proposes.

British Shipbuilders

BS are under a statutory duty to prepare a Corporate Plan annually. We have in the past avoided saying that we "agreed" the Corporate Plan since this carries the implication that we are committed to maintaining a particular configuration of yards. What we have done is "agree" the financial limits. The reference to the Corporate Plan therefore fits better in objective 2 than

objective 1. On this basis objectives 1 and 2 would be as follows:

1. Operation as a commercial enterprise and

(a) to reach, as quickly as practicable, a state of enduring profitability;
(b) to earn an appropriate real rate of return on its assets;
(c) progressively to reduce its requirements for Government finance; and
(d) to pay dividends on its capital.

2. Meet the financial targets which will be set by the Secretary of State after consideration of BS's annual Corporate Plan and which will reflect the Government's policy of reducing financial support for BS."

This re-formulation has been agreed with Treasury officials.

British Steel Corporation

In this case also, we do not formally agree the Corporate Plan. We see difficulties about adopting the wording suggested, and will discuss the matter with you at official level.

We can agree the suggested amendment to the last two lines of objective 1.

British Telecommunications

My Secretary of State gave the draft objectives to Sir George Jefferson on 2 August, with a view to discussion and eventual agreement, following agreement of these objectives by E(NI). We agree with the Chancellor's point about the performance objective, which has yet to be drafted, but should prefer not to make any other alterations until we have received comments from BT. We will bear in mind the other suggestion if a suitable opportunity arises during discussion to put it forward.

I am copying this letter to the Private Secretaries to other members of E(NI) and to Sir Robert Armstrong.

Yours sincerely

David Saunders

DAVID SAUNDERS
Private Secretary

SECRET

Prime Minister 2

Both the Chancellor and the CPRS (minute attached below) agree in general with Mr Lawson's approach to publishing statements of nationalised industry objectives. They add only minor qualifications.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

NATIONALISED INDUSTRY OBJECTIVES - POLICY LETTERS

with PM

Nigel Lawson sent me a copy of his minute of 27 July on the publication of policy letters agreed for the nationalised industries.

2. I agree with Nigel that we are clearly committed to publishing some statement of objectives for each of these industries; that what is said would depend on the circumstances of the particular industry; that publication should be at a time of the Government's choosing; and that the form of publication should be at the discretion of the sponsor Minister. I also agree with his proposals for handling the more sensitive material excluded from what is published.

3. I would make two qualifying points. First, given the public interest in the objectives, the normal presumption ought to be in favour of fairly full publication, although I recognise that this must stop short of revealing objectives which are at all sensitive. Second, the timing and form of publication should be decided in consultation with the Chairman concerned. As Nigel points out, the objectives will have been agreed with the Chairmen and Boards. We want the industries to feel fully committed to the objectives and their publication will be an event of some importance for them. It therefore needs to be handled sensitively.

4. As far as the NCB is concerned, Nigel's proposals for publication involve a fairly drastic pruning of the policy letter to the Chairman. However the NCB is a particularly sensitive case; and much of the letter was concerned with

tactics which would in any case be unsuitable for publication. While I can therefore go along with what is proposed we may well want to somewhat fuller publication in other cases.

5. Finally, I note that Nigel proposes some modification of the particular paragraphs for the purpose of publication. The letter was of course collectively agreed; if the modifications are at all substantial, therefore, I should be glad if we could be consulted at official level.

6. I am copying this minute to other Members of E(NI), the Secretary of State for Wales, Sir Robert Armstrong and Mr Sparrow.

(G.H.)

5 August 1982

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cc JV

Prime Minister 2

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

5 August 1982

The Rt. Hon. Patrick Jenkin MP
Secretary of State for Industry

Dear Patrick

NATIONALISED INDUSTRY OBJECTIVES

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I am replying to your letter of 30 June attaching the latest drafts of objectives for the nationalised industries sponsored by you and for BL and Rolls-Royce. These represent a useful step forward towards clarifying the objectives of the industries but I still have a number of comments. These are of two kinds. I have a number of detailed suggestions to make on the content of some of the drafts but I am also concerned about the lack of consistency both in structure and presentation between the proposed drafts for the different industries.

I shall leave aside the objectives for Rolls-Royce which you say are being reconsidered and BL, with which I am content. Indeed John Sparrow's draft of BL's objectives is commendable for its simplicity and clarity.

I recognise that the diversity of the remaining industries, and of the conditions in which they operate, make it impracticable to adopt an identical format for their objectives. It would not be appropriate to elaborate for BS or BSC the same sort of detailed complex of objectives as has been done for BT and the Post Office. Nevertheless in my view there remains scope for greater consistency in the shape and general methodology of the objectives.

Nearly all the drafts have as their first objective a statement setting the overall character of Government policy for the particular industry. This general approach was lucidly argued by John Hoskyns in his minute of 30 April and it seems to me right. For the Post Office, however, there is no clearly defined central principal to which the Hoskyns' hierarchy of objectives and sub-objectives could relate. Instead the fundamental aim of the Post Office is diffused through Objectives 4 and 11. These need to be brought together, preferably as the first objective. On a more detailed point Objective 4 which refers to maintaining an effective postal service consistent with "the highest

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quality of service demanded by the customer" goes well beyond the statutory requirements of Objective 11 and, if interpreted literally, could prove very expensive. To meet both points I would suggest for a first objective something along the following lines (supplanting existing Objectives 4 & 11):

> "[The prime objective of the Post Office is] to provide as far as practicable (and to the extent that no other person offers a service) such services throughout the UK for the conveyance of letters as satisfy all reasonable demands. In providing such services to operate commercially and to have regard to the social, industrial and commercial needs of the UK."

In other respects the objectives for the Post Office seem broadly acceptable.

Having established the overriding objective of the industry, the drafts in the main set out the subsidiary aims necessary for the achievement of the first. There is some difference here in the treatment of Government targets such as EFLs and financial targets. In the BS and BSC drafts they are subsumed into the first objective while for Giro they are left to the last; and for the Post Office and BT they are in between. Given the importance we attach to the control of the financing of BS and BSC the prominence given to these targets is appropriate. However it is not so clear why Giro should differ from the Post Office and BT in this respect. For Giro Government targets, currently 3(iii), (iv) & (v), could be given more prominence by bringing them into Objective 2 where they would be shown as (iv), (v) & (vi). The preamble to Objective 2 would need to be amended to read:

> "To meet the above objective, in a manner consistent with Government policy, Giro should:".

This would also tidy up the last section of the Giro objectives which at present equates Giro's policy on industrial relations and technological innovation with its obligations to Government.

I am not entirely content with the British Shipbuilders' objectives: Objective 1 in particular seems rather obscure. Moreover a reference to the annual Corporate Plan needs to be included to provide a logical basis for speaking later, in Objective 3, about "corrective action". To meet these points I suggest that Objective 1 should be redrafted as follows:

> "1. Operate as a commercial enterprise in accordance with an annual Corporate Plan, agreed with the Government, and:
>
> a) to reach, as quickly as is practicable, a state of enduring profitability;

b)

b) to earn an appropriate real rate of return on its assets;

c) progressively to reduce its requirement for Government finance; and

d) to pay dividends on its capital."

The following paragraph, which is in the nature of a comment on Objective 1, should be deleted since it detracts from the clarity of the objective.

The objectives for BSC are generally acceptable except for two points. First, it would make sense (as in British Shipbuilders) to bring up into Objective 1 the reference to the Corporate Plan currently in Objective 3. Second, the last two lines (following the semi-colon) of the first objective would be better in the following form:

"... and progressively reduce the need for financing by the Exchequer with the aim of generating sufficient profits by 1985-86 to cover its capital investment needs without recourse to the Government."

This change avoids an explicit reference to "self-financing", which would be inconsistent with CMND 7131 and Government evidence to the Treasury & Civil Service Committee.

Finally, if it is not too late, I would like to make two points on BT's objectives. 5(c) on improving labour practices might sensibly be separated as an objective in its own right to follow 4 - so the need to attach monopoly labour practices is as clearly recognised as the need to develop good business practices in what has until recently been a State monopoly supplier. Second, the as yet undrafted performance objective should be at least as testing as that proposed in your paper E(NI)(82)22.

I am copying this letter to other Members of E(NI) and to Sir Robert Armstrong.

GEOFFREY HOWE