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PRIME MINISTER

CONFIDENTIAL

mf

6/6
Nat. Ind) (2) cc NO
Prime Minister
To see.
I will resubmit
when others have let you have
their views.
MS 15/3

As you know, we have now announced the appointment of Graham Day as the next Chairman and Chief Executive of British Shipbuilders.

2 I attach great importance to our giving Mr Day a very clear indication of the direction that we want BS to take during his tenure of office. It is essential that we make it clear that we are looking for a return to the private sector for those parts of BS where this is practicable. Where it is not reasonable to expect progress in the timescale of Mr Day's contract, we need to make it clear that we are looking for reductions in underlying loss rates, and for BS to divest itself of its peripheral activities (which it will be able to do when the BS Bill, now in the Lords, is enacted).

3 I also believe that we need to give Mr Day a timetable for seeing results.

4 There are a number of other objectives that I should like to see BS pursuing, which would help to ensure that it was competing fairly with private sector companies; and that it was pursuing competitiveness as vigorously as possible. But these are subsidiary to the central objective.



... 5 I attach a draft of a set of confidential objectives for BS reflecting all these points. These are intended not only to determine the Corporation's direction over the next few years but also to provide benchmarks against which I can judge the "performance-related" element of Mr Day's remuneration package (his "performance-related" bonus, at my discretion, can be up to £15,000 pa).

6 I have shown these in draft to Mr Day, who not only accepted them but said that he welcomed the clear steer that they embody.

7 I would be glad to know if colleagues are content with these objectives. They are intended to remain confidential. Later in the year, when Mr Day is installed as Chairman of BS, I shall be seeking colleagues' agreement to a publishable version of these objectives, which will also be shown to other BS Board members.

8 My intention is, however, to restrict knowledge of these detailed objectives to Mr Day.

9 Copies of this minute go to members of E(NI) and Sir Robert Armstrong.

PJ

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15 March 1983

Department of Industry
Ashdown House
123 Victoria Street



CONFIDENTIAL

BRITISH SHIPBUILDERS - OBJECTIVES

The primary aim of the Government is to return British Shipbuilders to the private sector at the earliest opportunity. To this end, subject to the provisions of the Aircraft and Shipbuilding Industries Act 1977 and subsequent legislation, and any direction given by the Secretary of State by virtue of his powers under such Acts, the Corporation shall aim to:

1. Reach a state of enduring profitability, earning an appropriate real rate of return on its assets and paying dividend on its capital by
 - a) progressively reducing the underlying rate of loss on merchant shipbuilding (after IF Assistance) on offshore work and on engines;
 - b) the sale or closure of the shiprepair division by the end of 1983/4 and peripheral engineering interests by the end of 1984-5;
2. Make demonstrable progress towards the privatisation of all or part of the warshipbuilding division and any other disposable parts of the Corporation by 1985/6.
3. 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.
4. Take early firm corrective action including restructuring if at any time it appears that the above objectives will not be achieved.
5. Ensure that where the Corporation is in competition with UK private sector companies, such competition is at all times fair and seen to be fair.
6. Continue to pursue in consultation with the workforce a vigorous programme of cost reduction, including productivity, improvements, more efficient use of materials, and equipment with the aim of bringing BS costs for all its activities into line with that of the most efficient European producers and thereafter at least matching cost improvements elsewhere in Europe.

Department of Industry
11 March 1983

11- MAR 1963





10 DOWNING STREET

From the Private Secretary

25 April, 1983

FLVE
cc: D/En. *Sw.*
D/Emp. *Met End*
C Sec's Office
D/Trans.
D/Trade
SO PoE
HMT
CO

bcc: Mr. Owen.

British Shipbuilders - Objectives

The Prime Minister was grateful for your Secretary of State's minute of 15 March. She has also seen subsequent correspondence from other members of E(NI).

The Prime Minister considers that there should be no reference in the objectives to the national interest; that there should be separate and explicit objectives for the warship and merchant sides of the business; and that these targets should be specified more precisely in regard to their timing.

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

M. C. SCHOLAR

Jonathan Spencer,
Department of Industry

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