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PRIME MINISTER 9 July 1984

EFFICIENCY MEETING, DTI

The danger with the efficiency meeting as scripted is that it will degenerate into a vague and generalised discussion of management jargon.

Before DTI can decide how to be efficient they must consider the question: efficient at what? Unless the DTI is sure that it is encouraging profitable activities with its industrial support, it may not be delivering value for money, but damage for money.

Some of the points that could be brought out to give the meeting some substance are:

1. **Why is the DTI so bad at investing taxpayers' money?** Whether it be investing in exciting new ventures like De Lorean, Nexos, Microfilm Communications etc, or in old businesses like BL, British Shipbuilders, British Steel, the answer is often the same: an endless stream of losses.

   Most of the DTI's sponsored investments are characterised by over-optimism about the prospects, a lack of successful monitoring, no tough action at an

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early stage when things are going wrong, and a wish to trust managements that have failed time and again.

2. **Why does support reinforce failure not success?** An analysis of the pattern of DTI assistance in 1980 and 1981 revealed that an industry was more likely to receive assistance if its productivity and its growth rate were low.

3. **Why offer support for things that would happen anyway?** A 1983 analysis of the results of the Product and Process Development Scheme (launched in 1977) indicated that successful projects supported under the scheme would have been undertaken anyway, by the larger firms, well able to support innovation, and who return regularly to the DTI for second helpings. The genuinely additional projects, usually by smaller companies, were generally unsuccessful.

Support for innovation has more than doubled in 5 years. Shouldn't the DTI discover what has been achieved with this support if it is to manage these resources efficiently?

4. **Why has the DTI not made more rapid progress with selling off its accident-prone portfolio of investments?** At BL, Austin Bide was charged with selling 2 businesses from within the BL stable within

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2 years. No businesses have been sold in his first 2 years of office, and only Jaguar is in prospect. Why can't DTI and BL together get on with the preferred strategy of selling off those businesses that have the best looking future, to give them new management, new shareholders, new cash and new initiative? Otherwise they will be starved of cash and management as 4-wheel drive has in recent years.

At British Shipbuilders we have been waiting 5 years for the sale of the warship yards, and they still have not materialised, despite a Manifesto commitment in 1979. At British Steel, the Phoenix programme has become a way of partially nationalising the private sector steelmakers, and has not been followed up with the sale of more equity in the resulting joint venture businesses by the public sector.

5. **Why are Corporate Plans never processed on time?** Full consideration of the BL, British Steel and British Shipbuilders plans have been dragged out for months, to the point where it annoys the Board of Directors concerned as well as other departments of government. Shouldn't DTI be able to process the Corporate Plan within 3 weeks of its receipt?

6. **Why is it that the most successful businesses, like the leisure and financial service sectors, have**

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relatively little DTI grant support and sponsorship, whereas the least successful businesses constantly return for more and more money, but never find this staves off redundancy and industrial shrinkage?

7. **Why does the DTI cling so firmly to parts of its Regional Aid Programme - even in rejigged form - when it is shown that it is the most expensive form of job subsidy imaginable?**

The DTI is a department whose ethos simply has not changed despite the change of government in 1979. It sees its main roles as dishing out money to businesses - particularly those in trouble - and offering sponsorship and advice, usually to businesses that are doing badly and which continue to do badly.

When it comes to developing strong policies in areas like competition - where it could deliver cheap cars to the British public - the DTI obstinately refuses to co-operate, and tries to fight off joint Treasury/Foreign Office advice that would deliver cheap cars. The DTI fails to cut its way through the large number of regulations which intrude on small business and big business alike, and is at its best when developing new and complex regulatory systems, as with its response to the Gower Report for the City, and the reform of insolvency law.

It would be a useful opportunity to point out that the DTI culture needs to be completely transformed so that it becomes part of this Government's economic philosophy rather than a remnant of a bygone age.

John Redwood

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ANNEX

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'SPONSORSHIP'

Much, but not all of the manufacturing sector is actively "looked after" by DTI. Many sectors are not accorded these favours, for example, the suppliers of the vast range of personal services which most individuals buy directly such as repairs, house building, travel agents, guest houses, and retailing.

Pure sponsorship is essentially a trade association function. It involves close consultation between officials and their industry, with a view to intervention in Whitehall, Brussels and other world capitals to help things go the industry's way, or to head off unwelcome developments. DTI employs about 700 staff under this explicit heading.

Over half of DTI's staff are sponsoring in a wider sense - promoting, informing, representing, advising, providing subsidies for investment and research, carrying out research themselves, or providing overhead support for these functions. Table 1 attempts to estimate roughly how many staff are engaged in this way. The totals are derived by subtracting from the departmental manpower totals, the numbers engaged on policy work and on regulation (and their share of overhead support). The remainder are assumed to be engaged on sponsorship-type activities. On this basis, the total DTI staff involved in sponsorship in 1983-84 were 6980.

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Table 1

DTI MANPOWER ALLOCATION: average over 1983-84

Policy and Regulation	
Industrial policy	330
Trade policy	200
Regulation: insolvency, insurance, patents, radio regulation	4,030
Share of common services staff (3337)	1,560
Sub-total	6,120
Sponsorship-type Functions	
"Sponsorship"	710
R&D support and research (including Alvey Directorate)	2,280
BOTB and Oveseas Trade Divisions*	930
Regional Support	1,230
Industrial Development Unit	50
Share of Common Services	1,780
Sub-total	6,980
TOTAL FOR DEPARTMENT 1983-84	13,100

* In addition, perhaps 1,000 or more are engaged in the FCO on this activity and others in ECGD in support of 'national interest' business .

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