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PRIME MINISTER

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There will, no doubt, be
comments from the Treasury
and CPRS.

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PROGRESS IN IMPLEMENTATION OF CPRS REPORT ON RELATIONS BETWEEN
 GOVERNMENT AND NATIONALISED INDUSTRIES

It was decided at the E(NI) Committee meeting on 8 September that
sponsoring Ministers should report at the end of November on
progress in implementation of the major recommendations (other
than those concerned with increasing expertise in Departments).

2 Below I give an account of the position in relation to each
 of the industries sponsored by my Department.

The Post Office

3 In the case of this industry I was asked to report on the
 improvements achieved in monitoring the business and on the
 longer term intentions for the size and structure of the board.

4 So far as monitoring arrangements are concerned these have
 worked reasonably well in the past, but in the light of the CPRS
 report attention has been given to obtaining supplementary
 details where these would be useful and would not involve undue
 extra work. Agreement has been reached with both the Post
 Office (Postal business) and with National Girobank on the
 provision of certain extra information, such as, for example, a



quarterly return of expenditure and progress on major individual capital projects. Taken with the established monitoring criteria, there should now be enough input to enable my officials to keep their fingers on the pulse of the two businesses concerned.

5 Turning to the question of composition of the Board the statute allows for 12 members although at present there are only 11. The Chairman does not wish to increase the size of the Board, though should he choose to do so, it is likely that he would be inclined to fill the vacancy with a part-time member. Until the end of July of this year, the Board consisted of 7 full-time and 4 part-time members. In August, however, with the retirement of a full-time member, the Chairman, having regard to Ministers' wishes, appointed a further part-time member in his place giving the current composition of 6 full-time executives and five part-time members.

6 This seems to me to be about right, and I feel it unnecessary to press the Chairman to make further changes. The Post Office Board was reconstituted just over a year ago, following the split of the old Post Office. Its structure was designed with the streamlining of senior management in mind, and the presence of full-time members for each of the most important features of the business has enabled the Chairman to cut out by September of this year the two most senior management levels on the postal side. The "executive", in addition to the Chairman, now covers the areas of: Girobank; Finance; Industrial Relations;



Operations; and Marketing. In a labour intensive business crucially dependent on operation efficiency and traffic volume, it is difficult to see how the number of full-timers could be reduced further.

British Telecom

7 As with the Post Office I was asked to report on improvements achieved in monitoring and the size of the Board.

8 On monitoring, we remain very dissatisfied with the scope, timeliness and quality of information received from BT. While we have succeeded in getting some additional information on an ad hoc basis, there is a real problem over the inadequacy of BT's own internal management accounting systems. As you know, E(NI) has been considering whether it would not be right to subject this to scrutiny by the Monopolies Commission, but, partly because it was likely that such a scrutiny would seriously disrupt the proposed timetable for privatization, and partly because the Board was already vigorously tackling BT's management deficiencies with the assistance of outside consultants, E(NI) decided (E(NI)(82) 10th Meeting) that the disadvantages of this course outweighed the advantages. Instead, I was asked to discuss in detail with the Board how the existing work could be sharpened and strengthened so as to cover comprehensively the deficiencies which need to be remedied. Apart from considerations of good management, it will be essential to have a much better system in place before shares in BT can be offered to the public. Further, my officials, after consulting the Treasury and CPRS, are making a new series of requests of the Corporation in an effort to improve next year's medium term plan.

9 On the composition of the Board, BT currently has a chairman, Deputy Chairman, 6 Executive members and 4 non-Executive members. Thus the Board would appear in the light of the CPRS view to be a little large and to have too many Executive members. There is,



however, limited scope for altering this before BT becomes a PLC, since only one of the present Executive members' appointments (that of the Board's senior engineer with responsibility for major systems) ends before mid 1984 and even here there is the possibility that there will prove to be a case for replacement at Board level.

10 I am also expecting to be able to conclude arrangements shortly to replace the present Deputy Chairman, by, I hope, an outside candidate with the potential to become Chairman. In any event I will want to consult the Chairman closely.

British Steel Corporation

11 I was asked to bring forward proposals on the size and structure of the Board and timing of progress.

12 At a meeting with Mr Ian MacGregor on 7 December I discussed this issue with him and suggested a radical reconstruction of the BSC Board involving the removal of the employee and Civil Service directors, and a better balance between executive and non-executive directors.

13 He has agreed to my proposals, and the existing terms of office of BSC's employee directors which are due to expire at the end of 1982, will be extended for 6 months only.



British Shipbuilders

Board Structure

14 I think it unlikely that for BS we could make any significant moves towards the sort of Board structure recommended by the CPRS, given the Divisional structure of the Corporation and the present Chairman's views on Board structure.

Sir R 15 ~~Mr~~ Atkinson feels that the Chairman's role should be an executive one but that he should in future have the support of a separate Chief Executive; and that the heads of the five Divisions should be included on the main Board. With a Member for Finance (currently also heading the Shiprepair Division) and one for Industrial Relations, this brings the number of executives to at least 7 (without counting the new Chief Executive post).

16 To have a majority of non-executives would mean a rather large Board (currently the BS Board has 14 members but it has been larger). It is also extremely difficult to find good non-executive candidates willing to take the job on and I frankly doubt we could get enough to make a majority.



17 In any event, I think it would be inappropriate to start tinkering now with the BS Board structure. Mr Atkinson's appointment expires at the end of next year and I would certainly want to take the views of an incoming Chairman before pressing for any changes. Moreover, in addition to the Chairman's appointment expiring, the BS Board is facing a complete change at the top over the next 12 months and I must concentrate on filling these vital jobs first:

- 1) John Parker, the Deputy Chief Executive, is leaving for Harland and Wolff in the New Year; his post is a crucially important one for the Corporation;
- 2) Both Deputy Chairmen's appointments expire in 1983. In future there will only be one Deputy Chairman;
- 3) The non-executive side of the Board urgently needs strengthening.

I propose, therefore, to leave the issue of BS Board structure for the moment and return to it when I have a firm candidate for Chairman-designate.

Monitoring

18 Following a remit placed on them by E(NI)(82)7th, the CPRS had a number of discussions with DOI and other Departments'



officials on the monitoring of British Shipbuilders' performance. CPRS were broadly content with the Department's approach to BS monitoring and agreed with the Department the areas where BS should continue to be pressed for further information. In particular it was agreed that BS should be pressed to provide a rolling quarterly cash flow forecast (ie it should not stop, as at present, at the year end); a reconciliation between corporate forecasts and the forecasts made by the subsidiary companies; and phased budgets. Following interdepartmental discussion of BS's latest quarterly performance report, a meeting will be held with BS shortly to discuss the report and how monitoring should be further developed.

Rolls Royce

Board Structure

19 The CPRS's recommendation for a greater proportion of non-executive directors was dismissed by Lord MacFadzean earlier this year as inappropriate to Rolls Royce. There seems no point in raising this matter with him again, but I will raise the matter with Mr Duncan, the Chairman designate as soon as possible.

Objectives

20 In the light of discussions with Mr Duncan objectives for

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Rolls Royce have been drafted. It is my intention to write to Mr Duncan shortly to invite him to accept these objectives as his charge.

21 I am sending copies of this minute to the members of E(NI), Sir Robert Armstrong and John Sparrow.

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5 January 1983

Department of Industry

not end, Policy, A48



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