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cc DH. (Report with CF)

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From the Minister for Trade

Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
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11 June 1985

Dear Peter

The team which I appointed last Autumn to review the management and organisation of ECGD has now reported. I shall be announcing the publication of the report in an arranged written PQ which I shall answer tomorrow.

– useful DOCS.

The report, which I enclose, is detailed and I am not intending to make any comment at this stage. Norman Tebbit and I will be considering the report's recommendations and we shall submit our proposals to you and colleagues for comment in due course.

I am copying this letter, and the report, to the Prime Minister, Geoffrey Howe, Michael Heseltine, Timothy Raison and Grey Gowrie.

Yours

PAUL CHANNON

Paul

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ECG(D) MANAGEMENT REVIEW

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REPORT SUMMARY

1 In addressing our terms of reference, and identifying the future role of ECGD, we have analysed the Department's development through the post-war period and particularly the more recent years. Until the late 1970s ECGD experienced financial stability and a growing demand for its facilities. As a result, its business, which increasingly involved medium and long term risks, grew rapidly. At the beginning of the oil crisis of 1979, to be followed by the world recession, the Department had achieved a very high level of business and amounts at risk. Although premium rates, which had been halved over the last 20 years, had started to rise, income depended substantially on interest on the Consolidated Fund balance, which was to be eroded by a rapidly rising level of claims.

2 In the early 1980s political claims in particular rose dramatically and business levels fell - by a third in the case of short term business and by half for medium term business. These reductions were reflected in the decline in the percentage of exports insured.

3 The increased indebtedness of developing countries, and the reduced interest rate subsidies under the Consensus would appear to be the main reasons for the fall in medium term business. In the case of short term business a number of changes in the destination and composition of UK exports and greater concern with costs among exporters, would seem to have led to a larger number of exporters self-insuring, or insuring with the small but expanding private export insurance market.

4 It seems unlikely that any of the major factors will be materially reversed in the forseeable future, and the underlying prospect is for only limited growth in ECGD's business.

5 ECGD's exposure is concentrated on medium term commitments, and in relatively few countries. The Department's future financial

performance is overshadowed by the extent to which political claims will be recovered, and the timescale over which that occurs.

6 In considering the Department's future role, we assume that the level of medium term business, mainly related to political risk, will be determined within the potential market by Ministerial decisions about the support that should be given to capital goods exporters, and the political risks that the Department should accept. On the other hand, the Department should be able to run short term business on a broadly commercial basis, and the level of new business will be determined in part by the Department's ability to offer an attractive service to exporters. We have assumed that while Ministers will not want ECGD to compete aggressively against private sector insurers, they will want the Department to provide a high quality of service to exporters while meeting its "no net cost" objective.

Organisation of ECGD

7 The present senior management structure does not work effectively. There appears to be a vacuum at the top. With the prospect of a more difficult trading environment, and the need to carry through the considerable changes in working methods which we propose, we conclude that the Department should be headed by a Board, comprising 4 - 5 outside, part-time Directors (one of whom would be the Chairman), and the Secretary (to be designated Chief Executive). The Principal Finance and Establishment Officer would attend to advise the Board on resource matters. The Board would be responsible to the Secretary of State, through the Minister of Trade, for overall control and direction of the Department and its finances. It would put forward a Business Plan each year for approval by Ministers, and would set key tasks and objectives for the Under Secretaries based on the Plan approved by Ministers. Day- to- day management of the Department and implementation of the Board's Plan would be the responsibility of the Chief Executive.

8 Beneath the Board we propose 5 Under Secretary Groups (an increase of 1). Medium and long term business would be the responsibility of the "Project Group" (PG). The "Cardiff Group" would be responsible for the short term (less than 2 years' credit) facilities. The Group would be set rigorous short term financial targets, reflecting the commercial nature of short term business. Both Groups would be responsible for underwriting, claims and recoveries (the latter are currently the responsibility of the Principal Finance Officer) in order to bring together the market knowledge. This is important to ensure close cooperation between all the functions, and to clarify accountability for performance.

9 The Resource Management Group would combine the responsibilities of the Principal Finance Officer and the Establishment Officer to provide overall control of resources at Department level. The new Management Services Group would bring together information technology, a new O & M capability, economists, and OR staff. The International Group would amalgamate various functions associated with foreign debt and international negotiations and discussion on export credit and credit insurance.

10 The business of the Cardiff Group would be accounted for under Section 1, and the rest of the Department's business under Section 2, (apart from overseas investment insurance). The external Board members would carry out the statutory functions of the Export Guarantee Advisory Council in relation to Section 1 business. Charts of the present and proposed organisation of ECGD are at Annexes 1 and 2.

Financial Management

11 We recommend the introduction of new measures of financial management, involving a higher degree of decentralisation of the finance function while maintaining effective control by the PEFO. The annual Business Plan would become a key feature of planning and control, being the detailed expression of the Board's strategic

objectives. The Board would monitor key indicators to ensure that the Plan was being achieved. These changes would be supported by major improvements in the management accounts. Priority based budgeting and performance measures would be introduced wherever possible, supported by a new management information system. The aim would be to have financial and other objectives and clear areas of accountability throughout the Department.

Risk Management

12 The key to meeting ECGD's objectives lies in accurate assessment of risks. These fall into two broad categories, political and commercial. The latter is more easily controlled because the risks are mainly short term and spread over a large number of buyers; and we recommend that the Cardiff Group be fully accountable for the outturn on short term buyer risk business. The political risk is much more difficult to manage, because it is concentrated, and is largely related to medium term business. Here we recommend methods of portfolio management so that the financial consequences of the existing portfolio, and increases in it, can be assessed and incorporated in the Business Plan for decision by Ministers.

Effective Management

13 The future prospects for the Department, and particularly the successful implementation of our recommendations, will depend upon commitment and leadership by the senior management and more effective management at all levels. We make recommendations to improve the communication between management and staff and for the greater delegation of work within the Department.

Efficiency within functions

14 Alongside our recommendations for re-organising the Department we make a number of recommendations to improve the efficiency of the Groups. Generally we hope greater efficiency will be achieved by

decentralising functions and establishing clearer responsibilities and accountability. More specifically we recommend changes to short term underwriting and claims procedures which would increase efficiency and substantially improve the service given to exporters.

15 The Department's future efficiency is heavily dependent on improvement and expansion of the information technology facilities and the new Management Services Group will have a central role in developing the systems and providing the facilities throughout the Department. We recommend that an immediate task is a review of IT strategy.

16 We recommend that a study should be carried out of the Department's markets and products so that the Board can lay down a marketing strategy for the Department. Subject to these developments we have recommended that the Regional Offices should become considerably smaller. Our proposals on short term underwriting will reduce the amount of work carried out in the Regional Offices, as will a recommendation to centralise short term claims work in Cardiff.

Staff Management

17 Overall we have not found that the Civil Service rules are a significant hindrance to the businesslike operation of ECGD although there is a good case for flexibility in some areas. Nor have we found that ECGD has suffered exceptional losses of staff to the private sector. We do not see the need for a Departmental class.

18 The Department will need a wide range of professional and other skills to carry out the functions which we recommend. We do not find that the existing recruitment methods are inadequate, but we consider that there should be an increased number of secondments between the Department and other departments and private sector businesses.

19 There will be a major training need to provide the Department with the skills (including management skills) required.

20 With the changing nature of the work the Department should consider simplification of the grading structure. To provide a clear link between pay and performance, progression on incremental scales should be linked to performance markings under the annual appraisal system, and progression beyond the maximum pay point on the scale should be possible for HEOs and Principals making contributions beyond the requirements of the grade.

Conclusion

21 Our recommendations would change the Department from one based largely on clerical systems to one which is more analytical and more extensively computerised. It will be a substantially smaller Department, providing a better service for exporters, more interesting work for the staff, and we hope justifying higher status among other government Departments. The Department would be directed more effectively and the staff would know more clearly what is expected of them, and why their functions are important to the achievement of the Department's objectives. This appears to us to be the only basis on which the Department can be expected to perform successfully in a difficult and to some extent unpredictable future.