

CJTV



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Secretary of State for Industry

30 June 1982

Peter Jenkins Esq  
Private Secretary to the  
Chancellor of the Exchequer  
Treasury Chambers  
London SW1

Prime Minister <sup>(2)</sup>

Mus 2/7

Dear Peter

On 12 March Graham Austin wrote to you enclosing draft objectives approved by the Secretary of State for the nationalised industries for which he is responsible and for BL and Rolls Royce.

2 Following the discussion of objectives generally at E(NI) on 21 April some amendments have been made to the drafts and a draft (not circulated before) has been approved for National Girobank.

3 The objectives for Rolls Royce are under further discussion and we are not yet ready to re-circulate them. Accordingly, I am enclosing copies of the draft objectives for BL, British Steel Corporation, British Shipbuilders, British Telecom, the Post Office and National Girobank.

4 Some of the amendments are small ones for clarification but I detail below the more important ones.

5 Objectives relating to Government procurement policy have been deleted in view of the recent exchange of correspondence between the Government and the European Commission. The Commission objected to the "Buy British" policy of certain nationalised industries and we have been advised that objectives on these lines could be contrary to Article 30 of the Treaty of Rome.

6 The objectives for BL are a new draft based on one suggested by Mr Sparrow. An earlier draft was agreed between the Government (with the Prime Minister's participation) and Sir Michael Edwardes. The present draft must be regarded as an interim one which will need to be discussed with Sir Michael's successor when he is identified.

7 In the objectives for British Steel Corporation, number 1 has been expanded to include a reference to management of cash and to



meeting the EFL and objective 3 has been enlarged to include an obligation to prepare a Corporate Plan each year setting firm targets for the attainment of the objectives.

8 The objectives for British Shipbuilders now contain in paragraph three a reference to contraction. Ministers have not formed a view as to what level of support for the shipbuilding industry is tolerable without insisting on further contraction and the issue may have to be looked at in the context of BS's Corporate Plan in September if BS cannot hold to the projected level of improvement outlined in their Corporate Plan last year. The reference to contraction in the objectives does not pre-judge this consideration but whilst contraction may become a ministerial objective, it would not be suitable to include it in the objectives to be shown to the Chairman of British Shipbuilders and the reference should be deleted at that stage.

9 On the BT objectives there is sidelining to highlight objectives which to some degree may be said to prejudge decisions currently being looked at in E(TP).

10 I am copying this letter and attachment to Private Secretaries to members of E(NI) and also to David Wright, Cabinet Office.

*Yours sincerely*  
*Jonathan Spencer*

J P SPENCER  
Private Secretary



BL OBJECTIVES

- 1 To return all the constituent businesses, either together or separately to the private sector as soon as possible. If the return of a constituent business carries the risk of reduced viability of the remainder, the issue should be put to the Secretary of State with options.
- 2 Consistent with 1. to dispose of or close peripheral activities so as to concentrate on vehicle manufacture and sales.
- 3 To pursue in the Corporate Plan a specifically targeted programme of profitability improvement, within stated limits of public funding so as to achieve a rate of return that would attract external funds on normal commercial terms without Government support.



## BRITISH STEEL CORPORATION : OBJECTIVES

- 1 To operate as a commercial enterprise and to reach, as quickly as practicable, a state of enduring profitability so that the Corporation will earn a real rate of return on its net assets and pay a dividend on its capital; to manage its cash resources prudently and to operate within the External Financing Limits set by the Government; and progressively reduce the need for financing by the Exchequer, with the aim of becoming self financing by 1985/86.
- 2 To that end to transfer to the private sector, as quickly as practicable BSC's assets and activities. Priority in these transfers is to be given to the non-iron and steel activities of the Corporation and to the disposal or formation of joint undertakings where BSC's activities overlap with those of the private UK steel producers.
- 3 Consistent with the above and in consultation with the workforce, to pursue a vigorous programme of cost reduction, including productivity improvements, and more efficient use of materials, equipment and energy, with the aim of bringing BSC's cost structure into line with that of the most efficient European producers, and thereafter at least matching cost improvements elsewhere in Europe; and to prepare annually a Corporate Plan which should set firm targets for attaining the objectives set out above.
- 4 Where BSC remains in competition with the UK private sector steel producers, the Corporation shall ensure that such competition must at all times be fair and be seen to be fair.



## BRITISH SHIPBUILDERS : OBJECTIVES

Subject to the provisions of the Aircraft and Shipbuilding Industries Act 1977 and any direction given by the Secretary of State by virtue of his powers under the Act, the Corporation shall aim to:

1 operate as a commercial enterprise and to reach, as quickly as is practicable, a state of enduring profitability such that the Corporation will earn a real rate of return on its net assets so as progressively to reduce the need for financing by the Exchequer and pay dividends on its capital;

In determining whether profitability is likely to be reached and sustained, the Corporation may assume for planning purposes and without Government commitment that after the proposed new Intervention Fund tranche of £40 million there will be a further tranche of Intervention Fund at reduced level from July 1983 to July 1984 if by then EEC direct production subsidies have not been generally extinguished;

2 meet the external financial limits (EFL) and financial targets set annually by the Secretary of State which will reflect the Government's policy of reducing financial support for BS;

3 take early firm corrective action including closures if at any time it appears that the above financial objectives will not be achieved; for example if orders are not available on the right terms;

4 work towards the eventual privatisation either of BS itself or any part(s) of it making the assumption that, time permitting, the Government will introduce legislation to facilitate privatisation this Parliament;



- 5 sell to the private sector, companies, assets, and businesses peripheral to BS' statutory duties;
- 6 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;
- 7 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.



## BRITISH TELECOM: OBJECTIVES

1. To exploit BT's pivotal position in UK telecommunications by formulating a long range R & D and investment programme for information technology in order to assist industry and operators to increase efficiency and maximise their share of both the UK and world information technology markets.
2. To keep priorities within such a programme under continuing review with a view to:
  - a. the digitalisation of [ ]% of the UK trunk and junction networks by 1992 and all of it by 2002;
  - b. facilitating the provision of both BT and private sector interests of such broadband networks at both national and local level as the market requires;
  - c. the leadership of a joint UK research effort on optical switching and voice synthesis and recognition and other aspects of the fifth generation computer.
3. To use BT's total resources in such a way as to provide throughout the UK such telecommunications services as the market demands, meeting quality of service targets set in advance and announced by BT following consultation with the Post Office Users National Council - for example that 80% of orders should be met within 10 working days and that failure rates on local and STD calls should be no more than 0.8% and 0.9% respectively after 1985.
4. To develop and codify business practices in order to ensure that BT does not abuse its dominant market position.



5. To achieve a good financial performance while keeping price rises to a minimum by every effort to improve efficiency. In particular:
- a. to meet the financial targets and keep within the external financing limits set from time to time by the Government;
  - b. to set in consultation with Government stretching targets for improvements in operating efficiency;
  - c. to secure, in consultation with the work-force, the doubling of value added in real terms per employee each decade, so that management, employees and customers benefit from increased efficiency and higher output, yet where staff costs fall in real terms; improvements in pay to be linked close to improvements in labour productivity coming from more efficient use of labour resources as distinct from the benefits of using modern and less labour intensive equipment;
  - d. to ensure that tariff increases are kept as low as possible and do not amount overall to more than 2% less than the rate of inflation except following consultation with the Secretary of State.
6. To restructure BT operations in response to the market requirements of the new communications order introduced by the BT Act 1981 along the following lines:
- a. to ensure that all new activities take place within separate Companies Act companies;
  - b. to reorganise the main activities into smaller more manageable and accountable units on a functional or geographic basis as





appropriate so that the financial plans and results of each constituent part of each business can be identified and monitored;

- c. to exploit the potential of BT R & D and factory divisions by integrated product development and marketing, including the possibility of strategic joint ventures with the private sector;
- d. to exploit BT and BT International's world position with a view to conversion of the whole enterprise into something akin to AT&T and GTE.

7. In the next two years BT shall pursue the following specific short term objectives:

- a. maintain manpower numbers at or below the present level of 250,000 during 1982-83 and 1983-84 and reduce numbers to a maximum of 230,000 in 1984-85;
- b. establish as quickly as possible separate profit centres throughout its business and establish Companies Act subsidiary companies in two or more of the areas of radiopaging, radio telephones, telephone shops or viewdata;
- c. pursue the formation of joint ventures, along the lines for example of Martlesham Enterprises, including the early introduction of private capital into the City overlay project;
- d. establish a modern system of management accounts and control comparable with the best private practice.



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## ROLLS-ROYCE OBJECTIVES

### Longer Term Objectives

- 1 To manage the company in such a way that its return to the private sector can be accomplished no later than 1985;
- 2 To establish modes of collaboration with the company's major US competitors on future major civil projects or, failing such, to negotiate modes of withdrawal from selected markets;
- 3 To meet the defined requirements of MOD for military and marine engines;
- 4 To operate procurement policies with due regard to the long term interests of UK suppliers and their international competitiveness.

### Interim Objectives

- 5 To ensure a commercial return on capital employed as agreed with the Government, consistent with 1 above, and to dispense with Government funds save for the range of support available for industry generally, and such launch aid for the new projects which may, from time to time, be agreed;
- 6 To invest, in consultation with HMG, only in major projects which will achieve a minimum 5 per cent return in real terms;
- 7 To improve, in consultation with the workforce, productivity to at least the level of US competition;
- 8 To develop a strategic plan based on these objectives.

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## POST OFFICE: OBJECTIVES

Long-Term Objectives

1. To keep under active review the structure of operational requirements in light of rapid changes in the technology of paper transmission and of message communication with a view to reducing the costs of each message delivered while expanding the range of message services on offer.
2. To plan manpower and accommodation requirements in accordance with changes in operational parameters created by new developments in communication environment.
3. To restructure the Post Office where practicable into separate profit centres each with its own performance indicators and to create where possible separate Companies Act subsidiaries with a view to forming joint ventures with the private sector to accelerate the introduction of new technology and new services.
4. To provide throughout the United Kingdom the most cost effective postal service consistent with maintaining the highest quality of service demanded by the customer.

Targets Agreed with the Secretary of State

5. To achieve its financial targets and to operate within borrowing limits set by the Secretary of State with the approval of the Treasury.
6. To improve operating efficiency in accordance with, where applicable, the real unit cost objective agreed with the Secretary of State, namely that taking 1981/82 as a base, real unit costs should fall by 5% in the three years to 1984/85, 2% of which should be achieved in 1982/83.



7. To achieve quality of service targets of delivering 90% of first class letters by the first working day after collection and 96% of second class letters by the third working day after collection, as agreed with the Secretary of State after consultation with the Post Office Users' National Council.

8. To achieve levels of overtime in the Postal Business to the lowest level consistent with efficient operation and the attainment of quality of service targets by means of more flexible working practices and where appropriate, by the use of part-time labour.

9. To ensure that tariff increases are contained as far below the rate of inflation as possible and to maintain a minimum interval of at least a year between increases.

#### Competition

10. Where competing with the private sector to do so on fair and equal terms.

#### Statutory Constraints

11. 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 that satisfy all reasonable demands. In providing such services to have regard to efficiency and economy and to the social, industrial and commercial needs of the UK (BT Act 1981 Section 59(1)(2)).

12. To perform over its counters and to arrange to have performed over the counters of the sub Post Office network, at a fee to be mutually agreed, such



services for central and local Government and for National Health Authorities in the UK as those bodies may require. In performing such services to have regard to efficiency and economy and to the economic, social and commercial needs of the UK (BT Act Section 58 Post Office Act 1969 Section 12).



## NATIONAL GIROBANK OBJECTIVES

The prime objective of the National Girobank is to offer, on a fair and equal basis, effective competition to private sector UK banks (particularly for personal customers) to help ensure that the UK public enjoys an efficient banking and money transmission service.

### 2. To meet the above objective, Giro should:

- i. concentrate its attention on attracting personal banking customers, and in particular the presently unbanked, with the aim of providing a viable base for its future operations;
- ii. maintain tight control over its operating costs, in particular pay, so that sufficient internal funds can be generated to meet the investment needs of the programme of expansion implied by (i) above.
- iii. plan to continue to base its operations on PO counters, and where consistent with business efficiency, to expand its usage of these counters.

### 3. In addition Giro should:

- i. Promote the development of new methods for the transaction of banking business, in so far as they are cost effective, and keep in touch with relevant technological developments in banking, applying these developments where appropriate to its own services;
- ii. maintain good industrial relations, and in so far as is appropriate



to the circumstances of the business, involve employees in matters affecting their working lives.

- iii. achieve its financial target.
- iv. operate within the borrowing limits set by the Secretary of State with the approval of the Treasury and within the constraints of prudential supervision by the monetary authorities;
- v. plan a programme of investment agreed both as to the shape and overall size with Ministers. Projects to be appraised by methods appropriate to the circumstances of the National Girobank and agreed by the Treasury and the Department of Industry.



Secretary of State for Industry

*15/3*

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*Show to the PM  
Mus 16/5*

12 March 1982

Peter Jenkins Esq  
Private Secretary to the  
Chancellor of the Exchequer  
Treasury Chambers  
Whitehall  
LONDON  
SW1

Prime Minister <sup>(2)</sup>

*Mus 15/3*

*Dear Peter*

At E(NI) on 8 March (E(NI)(82)2nd) Ministers were invited to arrange for the circulation to the Sub-Committee draft objectives for nationalised industries for which they sponsor.

2 I attach draft objectives approved by the Secretary of State for the nationalised industries for which he is responsible and for BL Ltd and Rolls Royce.

3 I am copying this letter and attachments to Private Secretaries to Members of E(NI) and also David Wright, Cabinet Office.

*Yours sincerely  
Graham Austin*

GRAHAM AUSTIN  
Private Secretary





BL: OBJECTIVES

1 To implement the strategy approved in the 1982 Corporate Plan for the return of all the constituent businesses, either together or separately, as soon as practicable, to the private sector, and to ensure that nothing done under 2 or 3 will prejudice this strategy.

2 Consistent with 1, to dispose of or close peripheral activities so as to concentrate on vehicle manufacture and sales.

3 To pursue a programme of product, market and business development, wholly within the limits of public funding already agreed for the financial years 1981/82 and 1982/83 and announced by the Government, so that the business can be made to operate on a continuing commercial basis, and in particular to bring about the achievement of a rate of return sufficient to attract external funds on normal commercial terms to enable the business to trade independently of Government support.



## BRITISH STEEL CORPORATION: OBJECTIVES

1 To operate as a commercial enterprise and to reach, as quickly as practicable, a state of enduring profitability so that the Corporation will earn a real rate of return on its net assets and pay a commercial dividend on its capital and so progressively reduce the need for financing by the Exchequer.

2 To that end to transfer to the private sector, as quickly as practicable, BSC's assets and activities. Priority in these transfers is to be given to the non-iron and steel activities of the Corporation and to the disposal or formation of joint undertakings where BSC's activities overlap with those of the private UK steel producers.

3 Consistent with the above and in consultation with the workforce, to pursue a vigorous programme of cost reduction, including productivity improvements, and more efficient use of materials, equipment and energy, with the aim of bringing BSC's cost structure into line with that of the most efficient European producers, and thereafter at least matching cost improvements elsewhere in Europe.

4 Where BSC remains in competition with the UK private sector steel producers, the Corporation shall ensure that such competition must at all times be fair and be seen to be fair.



## BRITISH SHIPBUILDERS: OBJECTIVES

Subject to the provisions of the Aircraft and Shipbuilding Industries Act 1977 and any direction given by the Secretary of State by virtue of his powers under the Act, the Corporation shall aim to:

1 meet the external financial limits (EFL) and financial targets set annually by the Secretary of State which will reflect the Government's policy of reducing financial support for BS;

2 operate as a commercial enterprise and to reach, as quickly as is practicable, a state of enduring profitability such that the Corporation will earn a real rate of return on its net assets so as progressively to reduce the need for financing by the Exchequer and pay a commercial dividend on its capital;

In determining whether profitability is likely to be reached and sustained, the Corporation may assume for planning purposes and without Government commitment that after the proposed new Intervention Fund tranche of £40 million there will be a further tranche of Intervention Fund at reduced level from July 1983 to July 1984 if by then EEC direct production subsidies have not been generally extinguished;

3 take early firm corrective action if at any time it appears that the above financial objectives will not be achieved; for example if orders are not available on the right terms;

4 work towards the eventual privatisation either of BS itself or any part(s) of it making the assumption that, time permitting, the Government will introduce legislation to facilitate privatisation this Parliament;



5 sell to the private sector, companies, assets and businesses peripheral to BS' statutory duties;

6 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;

7 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.



ROLLS ROYCE: OBJECTIVES

In line with the Memorandum of Understanding with Rolls Royce the following objectives shall apply to the company:

- 1 To act commercially with regard to all aspects of its business ensuring a proper commercial return on capital employed.
- 2 To implement the long term strategy outlined in the approved 1980 Corporate Plan.
- 3 To achieve a position of sustained profitability with a view to eventual privatisation and to dispensing with Government funding save for launch aid for new engine projects in 1983 and beyond.
- 4 To invest, in consultation with HMG, only in major projects which will achieve a minimum 5 per cent return in real terms.
- 5 To meet the defined requirements of MOD for military and marine engines.
- 6 To improve, in consultation with the workforce, productivity to at least the level of US competition.
- 7 To operate procurement policies with due regard to the long-term interest of UK suppliers and their international competitiveness.

BRITISH TELECOM: OBJECTIVES

- 1 To exploit BT's pivotal position in UK telecommunications by formulating a long range R & D and investment programme for information technology in order to assist UK industry and operators to increase efficiency and maximise their share of both the UK and world information technology markets.
  
- 2 To keep priorities within such a programme under continuing review with a view to:
  - (a) the digitalisation of the UK trunk and junction networks by 2002;
  - (b) facilitating the provision by both BT and private sector interests of such broadband networks at both national and local level as the market requires;
  - (c) the leadership of a joint UK research effort on optical switching and voice synthesis and recognition and other aspects of the fifth generation computer.
  
- 3 To use BT's total resources in such a way as to provide throughout the UK such telecommunications services as the market demands, meeting quality of service targets set in advance and announced by BT following consultation with the Post Office Users' National Council - for example that 80% of orders should be met within 10 working days and that failure rates on local and STD calls should be no more than 0.8% and 0.9% respectively after 1985.
  
- 4 To achieve a good financial performance while keeping price rises to a minimum by every effort to improve efficiency. In particular:
  - (a) to meet the financial targets and keep within the external financing limits set from time to time by the Government ;
  - (b) to set in consultation with Government a stretching target for improvements in operating efficiency;
  - (c) to secure, in consultation with the workforce, the doubling of value added



in real terms per employee each decade, so that management, employees and customers benefit from increased efficiency and higher output, yet where staff costs fall in real terms;

- (d) to ensure that tariff increases are kept as low as possible and do not amount overall to more than 2% less than the rate of inflation except following consultation with the Secretary of State.

5 To restructure BT operations in response to the market requirements of the new communications order introduced by the BT Act 1981 along the following lines:

- (a) to ensure all new activities take place within separate Companies Acts companies;
- (b) to reorganise the main activities into smaller more manageable and accountable units on a functional or geographic basis as appropriate;
- (c) to exploit the potential of BT R & D and factory divisions by integrated product development and marketing, including the possibility of strategic joint ventures with the private sector; and
- (d) to exploit BT and BT International's world position by possible conversion of the whole enterprise into something akin to AT & T and GTE.

6 In the next two years BT shall pursue the following specific short term objectives:

- (a) maintain manpower numbers at or below the present level of 250,000 during 1982/83 and 1983/84 and reduce numbers to a maximum of 245,000 in 1984/85;
- (b) to seek a new way of cooperating with the private sector where feasible to bring to the market as quickly as possible a competitive and modern range of business and domestic terminal apparatus;
- (c) establish as quickly as possible separate profit centres throughout its business and establish Companies Acts subsidiary companies in two or more.



of the areas of radiopaging, radio telephones, telephone shops or viewdata;

- (d) pursue the formation of joint ventures, along the lines for example of Martlesham Enterprises, including the early introduction of private capital into the City overlay project; and
- (e) establish a modern system of management accounts and control comparable with the best private practice.





## POST OFFICE: OBJECTIVES

Long Term Objectives

- 1 To keep under active review the structure of operational requirements in light of rapid changes in the technology of paper transmission and of message communication with a view to reducing the costs of each message delivered while expanding the range of message services on offer.
- 2 To plan manpower and accommodation requirements in accordance with changes in operational parameters created by new developments in communication environment.
- 3 To restructure the Post Office where practicable into separate centres each with its own performance indicators and to create where possible separate Companies Act subsidiaries with a view to forming joint ventures with the private sector to accelerate the introduction of new technology and new services.
- 4 To provide throughout the United Kingdom the most cost effective postal service consistent with maintaining the highest quality of service demanded by the customer.
- 5 To co-ordinate investment and procurement programmes to pull through as far as possible new technology from UK sources of supply and to enhance their world market share prospects.

Targets Agreed with the Secretary of State

- 6 To achieve its financial targets and to operate within borrowing limits set by the Secretary of State with the approval of the Treasury.



7 To improve operating efficiency in accordance with, where applicable, the real unit cost objective agreed with the Secretary of State, namely that taking 1981/82 as a base, real unit costs should fall by 5% in the three years to 1984/85, 2% of which should be achieved in 1982/83.

8 To achieve quality of service targets of delivering 90% of first class letters by the first working day after collection and 96% of second class letters by the third working day after collection, as agreed with the Secretary of State after consultation with the Post Office Users' National Council.

9 To achieve levels of overtime in the Postal Business to the lowest level consistent with efficient operation and the attainment of quality of service targets.

10 To ensure that tariff increases are contained as far below the rate of inflation as possible and to maintain a minimum interval of at least a year between increases.

#### Competition

11 Where competing with the private sector to do so on fair and equal terms.

#### Statutory Constraints

12 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 that satisfy all reasonable demands. In providing such services to have regard to efficiency and economy and to the social, industrial and commercial needs of the UK (BT Act 1981 Section 59(1)(2)).

13 To perform over its counters and to arrange to have performed over the counters of the sub Post Office network, at a

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fee to be mutually agreed, such services for central and local Government and for National Health Authorities in the UK as those bodies may require. In performing such services to have regard to efficiency and economy and to the economic, social and commercial needs of the UK (BT Act Section 58 Post Office Act 1969 Section 12).

15 MAR 1982

