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5 January 1983

John Halliday Esq
Private Secretary to the
Home Secretary
50 Queen Anne's Gate
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Dear John

...1 attach a copy of this Department's Five Year
Forward Look which my Secretary of State sent
to the Prime Minister on 22 December.

2 I am copying this letter to the private
secretaries to other members of the Cabinet.

Yours sincerely
David Saunders

DAVID SAUNDERS
Private Secretary



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PRIME MINISTER

FIVE YEAR FORWARD LOOK FOR DEPARTMENT OF INDUSTRY

At Cabinet on 29 July each Minister was asked to prepare a report on a 'Forward Look' at his Department's programmes for the next five years. Your letter of 16 September elaborated the request, asking for an input to collective thinking for a positive and coherent strategy for the next Parliament. You indicated that the reports should include outstanding commitments and major initiatives anticipated over the five year period, showing resource implications as far as possible.

2 The central aim of our industrial strategy is to help the UK productive sector to become more competitive, profitable and adaptable. Unless we are successful in this, many of our other policies will be frustrated. I see the next five years in terms of continuing to develop and apply a range of policies designed to help achieve this. There will be several 'major initiatives' and many smaller ones, but much of our work will be a steady evolution of the policies that I believe can make the biggest contribution to our central aim. Alongside this there will be a reduction in spending on policies whose contribution is smaller or uncertain, together with a drive to complete the task of returning the state-owned enterprises to the private sector. Our future claims on resources, which I am determined to keep to a minimum, arise from the totality of these changes. I have therefore thought it right to provide a fairly full account of the Department's work - insofar as it can be foreseen - over the five year period.



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3 As part of our general approach to policy-making in this Department we are trying to be as clear as possible about our objectives. You will see our broadly expressed aims annexed to the report. In the report itself I have expressed our intentions in terms of specific targets wherever possible. I should stress that most of these targets depend heavily on others: on industry itself, on the education and training system, and on the policies of other Departments.

4 Basic to all our policies is a belief that the market knows best. Our most important task therefore is to create a climate in which market forces can work. This is a priority for the Government as a whole. The Department's distinctive role is to understand the needs of industry and to help ensure that wealth creation is accorded high priority by other Departments. To establish the right climate we must work to overcome obstacles of all kinds: inertia; lack of awareness; timidity; inherited attitudes and old habits. Despite the progress of the last three years, there are still far too many rigidities throughout the economy - including those imposed by Government itself. We must play our part in helping to improve industry's competitiveness by reducing its costs wherever possible. All these burdens are often disproportionately heavy on new and small firms; special efforts are required to improve the climate for them.



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5 There is also a need for more direct action by Government. It is very important that UK companies quickly grasp the opportunities presented by changing technology. We have been very active this last year in raising the level of awareness of information technology. Industry has recently identified the need for large scale research ('Alvey') to lay the foundation for the electronics and computer industries' competitiveness in the 1990s. Industry wants the DOI to take a leading role in this process. More generally, many studies suggest that although we in Britain are excellent at research itself, there are still far too many obstacles to the effective application of research knowledge to commercial purposes. Tackling this subject will be one of our major priorities.

6 Industrial performance in advanced countries depends on the development of 'human capital' just as much as on our investment in modern equipment. Apart from working to improve the performance of the education system, we are devoting an increasing proportion of our resources to supporting private sector management - through providing information and training about new technologies, and ensuring that consultancy services are available. Increasingly we see UK management as our scarcest resource, on whom our future depends. We must ensure that they have the right incentives and every opportunity to learn. This does not mean Ministers or Civil Servants telling



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managers how to do their job. It means action to ensure that the right kinds of services are available and are used, especially by smaller and medium sized companies.

7 I have included sections on the changes planned in the management of this Department and of the implications for resources of manpower and money. We shall be doing our utmost to switch resources from one activity to another, and to find new opportunities for contracting out wherever this can be done without loss of efficiency. I am in no doubt that understanding and support of the productive sector should be one of the Government's highest priorities. It is therefore essential that we should have enough people to do this properly, and I cannot at present see much scope for reducing total manpower in this Department during the period. As the report explains, much depends upon the outcome of the current regional policy review. If the outcome places increased burdens upon us, then it may be necessary to make a small increase in this Department's provision in order to achieve the targets set out in this report. I believe this would be a price worth paying. (We will have cut by some 23% between 1979 and 1984).

8 Your letter asked for outstanding commitments and major forthcoming initiatives to be identified. We have discharged all the specific commitments in my area of responsibility with which we entered office. The foreseeable major initiatives over



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the next five years include:

- (1) privatisation of BT and Rolls Royce
- (2) progressive sale of BSC, BS and BL
- (3) creation of a liberal regime for telecommunications and interactive cable services
- (4) mounting a major programme of collaborative research in Advanced Information Technology
- (5) major revision of regional policy
- (6) drive to develop and support more professional management, especially in small and medium sized companies.

PT

P J

22 December 1982

Department of Industry
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FIVE YEAR FORWARD LOOK FOR THE DEPARTMENT OF INDUSTRY

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FIVE YEAR FORWARD LOOK FOR THE DEPARTMENT OF INDUSTRY

1 INTRODUCTION

1.1 The central aim of the Department of Industry is to help the UK productive sector to be competitive, profitable and adaptable. This is primarily the task of UK management, working within a framework of market disciplines. All the policies of the Department are designed to enable these mechanisms to work efficiently, not to usurp the function of the market place. It follows that our first task is to maintain a thorough knowledge of industry itself and its needs. As its needs change, so must we. To pursue this the Department has a range of more specific aims which are grouped under three headings: climate, innovation and efficiency (Annex 1). We see the five year period in terms of making very substantial progress towards achieving these aims.

2 CLIMATE FOR ENTERPRISE

2.1 Our aim here is to create a climate for enterprise in the UK that is at least as favourable as any among OECD countries. Of course this Department has very little direct influence on the climate. Our work in this field is chiefly through our influence on other Departments. There is a great deal still to be done in removing obstacles - some of them Government-imposed - to enterprise at all levels from self-employment through to larger companies.

2.2 It is now recognised that new and small businesses have a very important part to play in providing the dynamic and most adaptable element in the economy. The comparatively small share of UK economic activity in the hands of small and medium-sized enterprises is seen as one source of our poor industrial adaptability. We aim to increase this share. We see improved incentives as the most important single route to encouraging self employment and the creation of new businesses. Measures to improve the provision of risk finance, 'patient money' and suitable premises are also important. Efforts must continue to lighten the legislative burdens that are disproportionately onerous to small companies.

2.3 Entrepreneurship is becoming more widely valued. However it is still far too common for our best brains to shy away from wealth creating activity, especially manufacturing. We are working to help change the perception of wealth creation by everyone in the education process from schoolchildren to university teaching. The newly established Engineering Council has an important role to play here. Over the next five years, the Department will support it in every way. (DoI interest in education and training is discussed further at section 4.2.)

2.4 In the short to medium term the business climate for large companies is still more important. Worldwide recession has made it very tough; the return on capital has fallen to historically low levels. In the past few years, fluctuations in interest rates and the exchange rate have played havoc with industry's ability to plan. In future, industry should benefit from a more stable macro-economic framework, with inflation and public spending under control.

2.5 Over the next five years the Department of Industry will continue to speak up for industry's needs in the fields of taxation and regulation. More action is needed to improve personal incentives and mobility; abolish the NIS; contain the rates burden; and to shift the balance of bargaining power further in favour of managers, weakening the power of trade unions to resist change and wage flexibility.

2.6 Together with the Department of Trade, we will work to eliminate barriers to our exports, especially within Europe.

2.7 All specific targets in this field depend on close co-operation with other Departments. They include:

Domestic Climate

- 1 Make the tax treatment of share options and incentive schemes as generous as in the USA
- 2 Eliminate the fiscal bias which favours investment in property and pensions over productive assets
- 3 Ensure the tax treatment of R & D is as favourable as in the USA

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- 4 Abolish NIS as soon as possible; consider reducing NIC
- 5 Reduce the burden of industrial and commercial rates
- 6 Reduce energy costs to industry through access to all fuels, including coal, at internationally competitive prices
- 7 Remove obstacles to self-employment and to the formation and growth of small firms, particularly by:
 - providing tax relief to investors in Small Firms Investment Companies
 - extending/improving the Business Start-Up Scheme; Loan Guarantee Scheme and Enterprise Allowance Scheme.
- 8 Remove obstacles to mobility, especially those imposed by non-transferability of pensions
- 9 Ensure adequate supply of premises for small companies
- 10 Investigate effects of Corporation Tax and possible fiscal bias against service industries

EC

- 11 Complete the Community's internal market by dismantling non-tariff barriers and opening up public purchasing policies in other member states
- 12 Ensure the Commission uses its powers to outlaw covert aids to industry in other member states
- 13 Reduce EC discrimination in favour of agriculture switching EC support towards innovation in industry

Worldwide

- 14 Resist pressures for protection.

3 INNOVATION

3.1 The climate for enterprise will not become so favourable during the next five years that there will be no need for Government to act in various ways to promote innovation and efficiency. But wherever we act, it must be to support judgements made in the market place.

3.2 Key Technologies

3.2.2 Spreading awareness and application of key technologies is a major task. The success of IT year shows that the Department can play a useful role in raising awareness. But

adoption is a much slower process. The MAP programme has helped over five years to raise use among companies of micro-electronics from 5% to 30%. This is still far too low. Project evaluation shows that MAP awareness, consultancy, and project support brings high returns. The Department can increase the rate of diffusion of IT by encouraging its application to areas outside commercial life, where the benefits can be directly apparent to the general public. We have made a start with this through assisting the introduction of micro-computers into general practice and demonstration projects and pre-production orders for systems which use IT to help the disabled.

3.2.3 The application of IT to cable technology represents a major opportunity for the UK and we aim to establish a framework which will enable private enterprise to develop the potential for new services rapidly. We aim to open up the telecommunications market by licensing interactive cable services during the next Parliament. This should lead to Britain being the first country to be served by a complete new 'electronic grid' of interactive services.

3.2.4 Over the next five years the importance of promoting new technologies will increase. Provided companies take the larger part of the risk, we will be ready to consider support for innovative products which covers market assessment; applied research; development; pre-production tooling and investment; prototype developments; and initial marketing. All major projects are subject to advice from outside industrialists through an Advisory Board. This helps to ensure that support follows market place judgements. Support will not be confined to particular sectors of industry. It is vital that we do not fall into the trap of thinking that the new technologies should be supported at the expense of the so-called 'mature' industries. There is abundant scope for applying new techniques to established industries to improve their competitiveness with very high returns. Robots in car assembly provide one example. 'Enabling' technology with widespread applications will continue to arise in the next five years and we will continue to help the spread of new technology by a variety of methods, including demonstration projects

3.3 Transfer of Technology

3.3.1 Britain's future in a highly competitive world depends increasingly on our ability to generate and use knowledge. Efforts must be stepped up to ensure a sufficient flow of information from the researcher through to the companies that can apply the knowledge, and between companies and sectors.

3.3.2 One way of transferring technology is to increase contact between researchers and companies through seminars etc. Evidence suggests that mobility is the most effective method of all. The Department will be active in seeking out and removing the obstacles to movement of qualified personnel, particularly from public sector institutions, including universities, and Government laboratories to the private sector.

3.3.3 We intend to promote technology transfer through a variety of initiatives. We have put forward proposals for the British Technology Group (BTG) to enable it to play a more positive role in the transfer of technology to the private sector from the public sector and from abroad within the overall framework of the Department's policies for industrial innovation. The BTG will put greater emphasis on searching out new opportunities and making the most of its expertise in licensing and patenting.

3.3.4 In conjunction with SERC we intend to extend a very successful scheme for locating graduate students in companies (The Teaching Company Scheme). We will also help with the establishment of new ventures linked to existing research institutions to exploit in-house research, encourage work in potentially exploitable areas and provide consultancy services and other help to industry. These ventures may take a number of forms such as growth centres for research-based industries, Science Parks, innovation centres for local industry and incubation centres for fledgling high technology companies.

3.4 Research for Industry

3.4.1 In Britain there has been insufficient civil research effort in fields relevant to UK industry. We aim greatly to increase the industrial relevance of the £1.6 billion spent

annually by Government on civil research. There needs to be better industry representation on the bodies which control the distribution of research funds in the public sector such as the UGC and the ABRC.

3.4.2 UK industry's own expenditure on R & D remained static in real terms during the 70s. American experience suggests that the level of privately funded R & D can be increased by imaginative use of the tax system. We want to explore this with the Inland Revenue.

3.4.3 We intend to increase the amount of effort in the Department's Industrial Research Establishments devoted to projects designed to yield industrial benefits in the medium to long term, linking science research successes to engineering applications. All efforts to identify areas for longer term research are subjected to the scrutiny of the Department's Research Requirements Boards so that industrial representatives can ensure that the programmes complement the work industry is carrying out itself.

3.4.4 Industry has proposed a large scale collaborative research programme in advanced information technology (the Alvey programme). Industry will be fully involved, but at this 'pre-competitive' stage it will be necessary for Government to meet a large part of the cost. Because many competing companies need to be brought together, alongside universities and other institutions, Government will need to organise the programme. This will be one of the major tasks of the Department during the next five years. Collaborative research is planned on a smaller scale in several other areas.

3.5 Standards

3.5.1 The aims set out in the White Paper on 'Standards, Quality and International Competitiveness' will require a major contribution by the Department of Industry towards the development of a system of standards, certification and approval to improve the quality of British goods. Eventually our system of standards should confer advantages on our industry on the same scale as German companies have benefited from the DIN system.

3.6 Public Purchasing

3.6.1 We will seek out further opportunities for enlightened public purchasing to support new standards, innovation and high quality British products. In particular we aim to adopt methods used in the US to ensure that small businesses get their fair share of public contracts, notably through 'set-aside' programmes for all public contractors. We will also encourage large private sector companies to do the same. Government should use its power as purchaser to reinforce its policy objectives in other areas even though this may involve hard decisions to forego the cheapest price offered in favour of overall economic value. We must resist pressures to take refuge behind international commitments. We need to develop more coherent policies whereby the public sector identifies its need for new products, initiates the development work in the private sector, pulling through new technologies, and backs this up with volume orders. Office automation is one area where this approach needs to be applied vigorously.

3.6.2 The defence equipment and R & D budgets require special effort to make sure that this Government expenditure contributes to industrial and commercial objectives. 80% of the funds Government provides to industry for R & D is for defence purposes and the civil spin-off from this expenditure needs to be greatly increased.

3.7 Specific targets in support of innovation aims include:

Key technologies

- 1 Raise application of microelectronics from 30% to 60% of firms by 1987
- 2 Establish, with the Home Office, an interim strategy for a national cable network with a limited number of franchises offered in 1983

Technology transfer

- 3 Build up four major growth centres for research based industries

- 4 Build up a active local network of innovation centres so that by 1987 no firm in the UK is more than fifty miles from one
- 5 Encourage the development of Science Parks throughout the country
- 6 Treble the number of participants (currently 90) in the Teaching Company scheme
- 7 Remove obstacles of tenure and pensions which deter qualified personnel in public sector research (45,000) from moving into private industry

Research

- 8 Organise and support a major programme of collaborative research on Advanced Information Technology (the Alvey programme)
- 9 Use collaborative ventures and tax incentives at least equal to those in the USA to promote industrially relevant research

Standards

- 10 Treble DoI expenditure on specification standards in Government laboratories and industry
- 11 Use British Standards in legislation and public procurement
- 12 Gain international recognition for UK testing and product certification schemes

Public purchasing

- 13 Identify and remove obstacles to increased civil spin off from defence R & D spending
- 14 Help British firms to establish a major presence in new markets - such as healthcare and office automation - by pilot projects and enlightened public purchasing to achieve volume
- 15 Establish 'set-aside' programmes for small business suppliers by all public contractors

4 EFFICIENCY

4.1 Apart from its role in promoting the right climate for industry and encouraging innovation, the Department uses its influence to promote efficiency in a number of other ways.

4.2 Human resources

4.2.1 Industrial performance in advanced countries depends as much on the development of 'human capital' as on investment in modern equipment. The Department has an important role in helping to ensure that industry's manpower needs are understood and met by the educational and training systems at all levels.

4.2.2 The 1979 Manifesto committed the Government to review the relationship between school, further education and training to see how better use can be made of existing resources. Although this is primarily a matter for DEm and DES, this Department is uniquely concerned about the implications for industrial competitiveness. A low proportion of the working population is vocationally qualified in comparison with our industrial competitors.

4.2.3 The Department supports the objectives set as part of the New Training Initiative for developing and implementing by 1985 standards for training. We want to end unnecessary time-serving conditions and age barriers by that date. We support the MSC in its new initiative for vocational education for the 14-18 year old age group and the Engineering Council's efforts to give greater emphasis to technician education in engineering.

4.2.4 More action is needed to remedy the unbalanced attitude to industry and commerce which in many institutions ranges from indifference to contempt. This change should encourage young people to choose vocationally relevant courses throughout education. More and better industrial representation is required at all levels of education from the NAB and the UGC down to the governing boards of primary schools. Direct liaison between firms, schools and colleges is also vital. The Department's Industry/Education unit will continue to be very active in this area. Clear and authoritative information is required about industry's education needs.

4.2.5 Where a rapid response is required to a new training need over the next five years the Department may collaborate directly with the MSC. One example is the programme to establish at least 150 Information Technology Education Centres (ITECs) over the next year. The Department is reviewing the implications for training and qualifications of the increasingly close links between mechanical and electrical engineering which advanced manufacturing technology requires.

4.2.6 The Department will fund some projects directly to give a clear and early signal to the system of industrial needs. The successful micros in schools initiatives are examples of this kind of action. Further initiatives may include sponsoring lectureships, fellowships and studentships in key subject areas.

4.2.7 Just over 60% of students in higher education are estimated to be in science, technology and other vocationally orientated subjects. Since the early sixties the proportion of arts and social studies students in higher education increased markedly. The UGC has said that it intends that by 1983/84 the balance between arts and science and technology should shift in favour of the latter by 2% and that there should be an absolute increase of 2% in the number of engineering students over the levels in 1979/80. We believe that this degree of adjustment is not sufficient to meet the needs of ^{the} economy over the rest of the century or the likely demands of prospective students as the importance of the new technologies becomes more widely appreciated. Not only does the balance have to shift more dramatically but the relevance of science and technology courses to industrial and commercial needs must be improved, for example by the inclusion of modules on topics such as operational research, statistical quality control and management accounting. Given the long lead times needed to modify higher education provision, action needs to begin as soon as possible.

4.3 Management

4.3.1 Evidence has accumulated suggesting both that UK executives are less highly qualified than their continental, US and Japanese counterparts and that the education and training

UK managers receive is not sufficiently related to their future careers. The lower status of engineering and manufacturing in the UK are symptoms of the overall problem. General management in UK manufacturing has also been criticised for lack of market orientation and its neglect of medium and longer term considerations.

4.3.2 The Department has responded to this by developing a number of programmes designed to promote the awareness and adoption of advanced manufacturing techniques such as computer aided design, flexible manufacturing systems and robotics. More effort is required to support UK management - especially in small and medium-sized companies - to increase their capacity to take on their international competitors. Advisory services need to be developed not just in connection with the new technologies but also for those aspects of management which apply to almost all enterprises such as management accounting, stock control, buying, marketing and statistical quality control.

4.3.3. The Department itself has no special expertise to offer but it can bring about changes. Increased industrial relevance of education is part of the solution. The Engineering Council has an important role to play in this and other aspects of the problem. Increased mobility for executives, promoted by the removal of obstacles to mobility such as non-transferable pension rights needs to be encouraged. The spin-off effects of inward investment by foreign companies who introduce best management practices into the UK can be substantial. We shall also encourage the appointment of suitably qualified and experienced non-executive directors.

4.3.4 The Department can also help by meeting the costs of consultancy in specialised fields through services like the highly successful Manufacturing Advisory Service or Design Advisory Service. In general these schemes involve much less expenditure than the more traditional role of contributing directly to project costs. But they generate very high returns in terms of improved efficiency. There is scope for a much bigger role for DoI in making services available to management, who are in the front line in bringing about improvements in performance.

4.3.5 Our specific targets in these fields are:

Education and Training

- 1 Establish at least 150 ITECs by the end of 1983, in collaboration with the MSC. Aim at 400 by 1987
- 2 Improve the quality and availability of information about industry's requirements from education
- 3 Encourage more and better industrial representation at all levels of the education system and better liaison between firms and schools. Every teacher should be offered a short period (eg a fortnight) in an industrial or commercial company
- 4 Improve the vocational relevance of courses throughout higher education. Specifically:
 - accelerate the shift towards science and engineering so that by 1987 the proportion of students taking non-vocational arts degrees is reduced from its present level of 40% to 25%
 - all scientific and technical education should include modules on business subjects such as accountancy, design, marketing, statistical quality control
 - all arts courses should include some exposure to numerical, technical and commercial subjects
- 5 Ensure that all craft and technical level training includes material on basic business principles
- 6 Increase exposure by students at all levels to modern production techniques and equipment
- 7 Improve the industrial content of teacher training and re-training, if necessary with pump-priming finance
- 8 Support the New Training Initiative, including the Open Tech, and press the MSC to eliminate time-serving by 1985

Management

- 9 Increase provision in adult education for management education - if necessary, by direct Departmental financing of projects eg through the Open University
- 10 Extend the Department's funding of advisory services to management to cover all specialist fields with availability to all small and medium-sized companies
- 11 Establish local enterprise agencies involving the private sector to provide advice to small firms in every centre of population in the country, with back up support from the Small Firms Service
- 12 Provide a computer-based information service linking all enterprise agencies and other bodies providing advisory services for new and small firms throughout the country.

4.4 Nationalised Industries and State-owned Companies

4.4.1 Wherever feasible, the Department aims to return productive activity to the private sector. Legislation to turn BT into a Companies Act company and to sell shares is before the House. October 1983 is the target date for BT to lose its 'exclusive privileges' and obtain a licence to provide a telecommunications service in the UK. A competitor has already been licensed. The regulation of this growth industry will be an important task for the Department, through Oftel, in the years ahead.

4.4.2 Legislation to permit the introduction of private capital into the activities carried out by British Shipbuilders is before the House. The precise timing will depend on market conditions.

4.4.3 Over the next five years the following measures should have taken place:

British Telecom	sale of 51% of company to the private sector
British Steel Corporation	disposal of businesses peripheral to steel-making virtually complete by 1984; joint ventures with private sector (operating transparently) in areas of overlap eg cold narrow strip, springs and engineering stocks by 1984; privatisation of major steel making businesses as they are returned to viability after 1984
British Shipbuilders	privatisation of shiprepair activities during 1983/4 and Vickers, Yarrow and Vosper warship builders after the election
National Enterprise Board (BTG) ..	disposals of all subsidiaries
British Leyland	introduction of private equity into Jaguar and possibly Unipart and Land Rover (with or without Leyland Group) by 1985
Rolls Royce	return to the private sector by 1988

4.4.4 For all NIs and state-owned companies the Department will continue to set challenging objectives, including financial and performance targets. Chairmen of the highest calibre will be appointed, linking their remuneration to performance in relation to agreed objectives.

4.5 Regional Policy

4.5.1 Regional policy is the subject of an interdepartmental review. The results will be for implementation in the next Parliament. Although we cannot anticipate the outcome, we hope to cut back on automatic capital aids and to make future policy more in tune with the Department's other aims: stimulating new enterprise, promoting innovation and developing human resources. There is also a strong case for integrating this Department's regional work more closely with that of DoE and DEm and for securing a fair balance between Scotland, Wales and the disadvantaged regions in England.

4.6 Inward Investment and Foreign Collaboration

4.6.1 Successive Governments have recognised the benefits to the UK from direct inward investment, especially when it is located in the assisted areas. We shall continue actively to encourage companies to locate here - especially those of American and Japanese origin who can substitute local production for imports and use the UK as a base from which to supply the rest of Europe. Joint ventures with foreign companies can be another means to gaining access to technology, expertise and world markets. We shall be actively encouraging them, especially with Japanese companies. Our specific target for inward investment is:

to maintain and if possible increase the UK's 1982 share of US and of Japanese direct investment in Western Europe by 1987

4.7 Tactical Support in World Markets

4.7.1 Because other Governments are active in the field of supporting major export contracts or in international agreements to reduce pressures from low cost producers, the Department

must be ready to take essentially tactical action in support of British industry. That does not mean we should always match subsidies or import restrictions. But the impact of our competitors' policies has to be considered when formulating our own. It will often be necessary for the Government to ensure that British industry is not placed in a disadvantageous position. No targets are expressed for this essentially tactical work, because it is much affected by developments elsewhere.

5 DEPARTMENTAL MANAGEMENT

5.1 Touche Ross recently examined the adequacy of the Department's financial and planning control systems. A number of their recommendations are being implemented:

- a A single Resource Management Group (RMG) chaired by the Permanent Secretary has been established to be responsible for the planning and allocation of the Department's resources
- b The RMG has proposed some priority areas for action for the Department in drawing up Divisional plans, including PES
- c The calibre of financial accounting and internal audit staff is being improved, as are audit procedures
- d Pilot studies of responsibility cost centres are under way at three locations within the Department
- e A strategy for improving management information systems is being prepared.

5.2 A thorough review of Departmental aims has taken place and a Policy Planning Unit has been set up to co-ordinate this work. The aims have recently been published. Within the Department the aims are being used as a framework for planning at the Divisional level through the formulation of policy objectives and operational targets. (This work represents part of the Department's programme to implement the Financial Management Initiative, on which a fuller report will be made shortly.)

5.3 The Department intends to increase its managerial competence over the next five years in a number of other ways. It is planned to:

- 1 Conduct annual reviews of performance against plans for every Division
- 2 Set clear objectives at the outset of all new schemes of assistance, with early evaluation of results
- 3 Make the marketing of the Department's awareness campaigns and schemes more professional and coherent
- 4 Increase the number of exchanges of Departmental staff with those in industry and commerce
- 5 Increase training effort in modern management techniques
- 6 Increase professionalism in monitoring nationalised and state-owned industries
- 7 Integrate more closely the work of administrators and specialists.

6 IMPLICATIONS FOR RESOURCES

6.1 The Department's spending, excluding the nationalised industries, is planned to be around £1 billion per year for the next two years. By 1 April 1984 it will employ 7,300, including Common Services shared with DoT - approximately 1% of the Civil Service. This follows a reduction of 23% since May 1979.

6.2 Expenditure

6.2.1 To increase the rate of innovation in industry, we intend to give very high priority to maintaining a steady expansion of our programmes for research (Alvey and others) and its application to new products. Since our spending is tied to spending by industry itself, there is a substantial gearing effect. Continued expansion of these programmes should pay big dividends in the competitiveness of UK companies in the 1990s. In the last four years, spending under the Science and Technology Act has increased from £106m in 1978/9 to an allocation of £249m in the present year.

6.2.2 Departmental spending on support for management has grown rapidly due to the expansion of advisory services to small firms, but is still quite modest at £40m per year. We intend that this should occupy a much larger share of our total expenditure within five years.

6.2.3 These increases can be accommodated within present levels of total Departmental spending provided that we continue to contain and reduce spending on the state-owned companies and industries and that there are some savings in regional policy as the result of the present review.

6.3 Manpower

6.3.1 It will be more difficult to meet the increased need for manpower in our high priority activities - R & D and management support - by reductions elsewhere. Reduced spending on the state-owned enterprises will not release many people. Liberalisation will make increased demands in some cases. (Approximately 50 extra staff will be needed for Oftel.) There is a risk that future forms of regional policy will be more sophisticated and therefore more labour-intensive to administer. We shall be pursuing every opportunity to contract out wherever this can be done without loss of efficiency. The picture should become clearer during the forthcoming exercise on manpower. However much will depend on the outcome of the regional review. If there are new tasks to perform, a small increase in the Department's provision may become necessary in order to carry out our high priority activities.

DOI STRATEGIC AIMS

ANNEX 2

