

SECRET AND PERSONAL

PRIME MINISTER

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POSSIBLE MACHINERY OF GOVERNMENT CHANGES

Following our talk yesterday, I held a meeting in the most strict confidence with Peter Gregson, Ms Genie Turton, (Head of Machinery of Government Division, MPO) and Richard Hatfield (Sir Robert Armstrong's Private Secretary).

As a result, I now enclose a minute from Gregson which concludes that the transfers of functions to the Department of Employment make presentational and policy sense, although there are inevitable organisational frictions. However, he sees less justification for the transfers to the Department of Energy. I agree with his advice throughout.

Also attached is a note from Ms Turton which sets out some of the (soluble) mechanical points involved.

Hatfield will alert Sir Robert when he comes into the office tomorrow. I suggest that, as the next step, you should discuss these matters with him after your meeting on Northern Ireland tomorrow. We can then decide how best to carry matters forward.

N.L.W.

N L WICKS

29 August 1985

SECRET AND PERSONAL

Prime Minister

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MR WICKS

Copy No: 1 of 2

You asked me in strict confidence for my personal reactions to two possible changes in the machinery of government:

- (i) The transfer to the Department of Employment:-
- from the Department of Trade and Industry its responsibilities for regional industrial policy and assistance, small firms, tourism and de-regulation;
 - from the Department of the Environment its responsibilities for action in the inner cities;
 - from the Cabinet Office the Enterprise Unit.
- (ii) The transfer from the Department of Trade and Industry to the Department of Energy of responsibility for steel and shipbuilding.

2. On (i), I think that this would have some major presentational advantages. It is difficult for the Secretary of State for Employment to have to defend the unemployment figures month by month when his own ability to influence them is limited largely to special employment measures which many people regard as not concerned with real and lasting jobs. The changes would give him direct responsibility for more of the tools which may help to create real jobs. It would still not give him total responsibility for those Government policies which have a bearing on job creation (eg the Treasury's fiscal measures and the DTI's support for innovation), but it would probably not be sensible to go further. It is likely that a change of this kind could be made without serious damage to the public's perception of the DTI whose range of responsibilities would remain very wide.

3. The change at (i) would involve some organisational upheaval and there would be some particular problems, although these

would probably not be insuperable (the most obvious are the fact that the DTI's responsibilities for regional industrial policy and assistance, small firms and tourism extend only to England, and the question of whether the DTI's regional organisation, which deals also with exports and some other DTI matters, would have to be transferred to the Department of Employment). You are receiving separate advice on the detailed organisational issues.

4. As to (ii), the Department of Energy, which is one of the smaller Departments, would have no difficulty in accommodating responsibility for steel and shipbuilding. There would be a marginal advantage managerially in making the Department of Energy a somewhat larger unit. There would however be two serious disadvantages. The first is the effect on the public's perceptions of the DTI. If combined with the change at (i), the additional change at (ii) would look like a vote of No Confidence in the DTI. The only way of counter-acting this would be to argue that the DTI would be freed to carry out some important new tasks. It may however be difficult to say convincingly what these might be.

5. The other serious disadvantage is the difficulty of explaining the logic of the Department of Energy's enlarged responsibilities. It is true that the old Ministry of Fuel and Power had responsibility for a time for steel as well as the energy industries, but this was at a time when coal and steel were thought to be very closely linked as the commanding heights of the economy (the same thinking which created the European Coal and Steel Community). Steel has very little connection with the energy industries now, other than the fact that it is one of the larger consumers of coal. Shipbuilding has very little in common with any of the Department of Energy's responsibilities, except perhaps that it is an industry like coal which needs to contract. There have been suggestions over the years for turning the Department of Energy into a Department of Nationalised Industries. It is however an

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old-fashioned notion now. A major part of the Department of Energy's work is concerned with the private sector oil industry, and British Gas will be privatised next year in the next session. There are many other nationalised industries besides steel and shipbuilding which would need to be added to form a convincing Department of Nationalised Industries, eg British Rail, National Bus, the Post Office* and the Water Authorities. It would therefore be difficult to devise a convincing rationale for having a Department dealing with the energy industries, steel and shipbuilding.

PLG

P L GREGSON

29 August 1985

* which would presumably remain with DTI?

DEPARTMENT OF EMPLOYMENT: POSSIBLE EXPANSION OF FUNCTIONS

I. EXISTING DEPARTMENT

The Department of Employment's existing functions are:

- a. training policy
- b. careers services
- c. employment creation and preservation (eg Voluntary Projects Programme, Enterprise Allowance Scheme, community Industry and Community Programme, early retirement, job release scheme, work-sharing)
- d. employment regulation (employment protection, race relations, equal opportunities etc)
- e. industrial relations (disputes, pay bargaining)
- f. unemployment benefit service (as agent of DHSS)

Also within the Employment group are:

The Manpower Services Commission - funded by grant in aid by Department of Employment, Scottish Office and Welsh Office. MSC runs employment services (job centres, help for disabled and long term unemployed), provides vocational, occupational, and industrial training (eg Youth Training Scheme) and has just taken responsibility for some work-related non-advanced Further Education.

The Health and Safety Commission and Executive - which polices the health, safety and welfare of those at work.

The Advisory, Conciliation and Arbitration Service - which conciliated in industrial disputes.

2. Current manpower is:

*Department of Employment 29,919 (1.4.85) falling to 27,803 (1.4.88)

HSE 3662 (1.4.85) falling to 3644 (1.4.88)

ACAS 639 (1.4.85) falling to 625 (1.4.88)

3. Existing management is:

Secretary of State
Minister of State
Parliamentary Under Secretary of State
Lord in Waiting

Permanent Secretary since 1983 - Sir Michael Quinlan (born August 1930, previous experience in MOD and Cabinet Office)

Three Grade 2 (Dep Sec) and nine Grade 3 (Under Sec)

4. Regional Network

The Department of Employment has regional offices for its unemployment benefit service in London, Birmingham, Newcastle, Manchester, Bristol, Leeds, Edinburgh and Cardiff. It has very

* Note Most are in the unemployment benefit offices (f)
Interface between unemployment benefit offices and DHSS benefit offices is currently under review. Results (summer 1986) could lead to proposals for change in responsibilities in the medium to long term.

small outposts in the first six for its careers services. The MSC has its Headquarters in Sheffield and has regional offices in London, Basingstoke, Leeds, Birmingham, Manchester, Newcastle, Bristol, Edinburgh and Cardiff.

II NEW FUNCTIONS

5. Under the proposals, the Department of Employment would take over from the Department of Trade and Industry and Department of the Environment the main Government instruments (excluding fiscal instruments) of job creation. It would also absorb the Enterprise and new Deregulation Units at present located in the Cabinet Office.

6. The functions are:

from the Department of Trade and Industry

i. Regional Policy and Assistance. This covers European Community money as well as the two main support schemes - Regional Development Grants and regional selective assistance. Both are aimed at job creation/maintenance.

One Grade 3 command in London and regional offices. Regional Development Grants are administered through two dedicated DTI offices at Billingham and Bootle, and selective assistance through DTI's 7 regional offices (London, Newcastle, Manchester, Leeds, Nottingham, Birmingham and Bristol). Nos approx: 70 in London, 90 (Billingham and Bootle) plus regional office staff.

ii. Small Firms. The Loan Guarantee Scheme, general advice and guidance to small firms and promotion of small firms' interests.

Part of a Grade 3 command in London and small firms centres in Newcastle, Manchester, Leeds, Nottingham, Birmingham, Bristol, London Cambridge and Reading. Nos approx: 50 in London and 40 to 50 in regions.

iii. Advance factories. (English Industrial Estates Corporation).

Part of an AS command. Nos: (part of i.)

iv. Tourism. Grant aid to British Tourist Authority and English Tourist Board and grants for specific projects.

Part of an AS command. Nos 15-20.

In addition the Department of Employment might take on:

v. Inward investment by overseas manufacturing and service industries. Nos approx: 40 and would need to take in part of the work of

vi. Industrial Development Unit. This advises on selective assistance policy and undertakes appraisal of proposals. But it also advises on functions which would stay with DTI (eg British Leyland). Nos perhaps 10.

from the Department of the Environment

vii. Inner city action and CATS. This covers inner city policy generally and the co-ordination of the new City Action Teams (CATS) as well as the Urban Programme. There is a London Grade 3 command but much of the detailed work is done in DOE's regional offices (London, Birmingham, Leeds, Manchester, Newcastle, Bristol and Nottingham). Nos approx: 40 .

and for consideration is:

viii. Derelict land grants and enterprise zones

Nos approx: 15

ix. Sponsorship of the Development Commission which grant aids development projects in rural areas. Nos 1-2.

7. The DTI functions could be transferred to the Department of Employment without the DOE functions, or vice versa - simply transferring from DOE the "Co-ordination" of the City Action Teams (CATS) and leaving the the spending instruments - the urban grants - behind.

Mechanics

8. The main functions are vested in a "Secretary of State" and can therefore be transferred administratively. But it will almost certainly be necessary to have a tidying up Transfer of Functions Order to take care of odd statutory powers and property. This will be subject to negative resolution. Parliamentary opposition on policy grounds is unlikely. But it is just possible that the Civil Service trade unions might attempt to stir up opposition because of the disruption to their membership.

9. The main problems will lie in transferring people and accommodation and in sorting out a new Department of Employment organisation (and revised DOE and DTI arrangements), particularly in the regions. About 250 jobs would transfer from DTI and DOE in central London and perhaps 300 plus in the regions.

III MAIN POINTS TO NOTE

10. The role of a new Secretary of State for Employment vis a vis Secretaries of State for Scotland and Wales needs to be clear. Employment policy is GB-based, but the employment instruments transferred to the Department of Employment are England only. An initial statement that the new Secretary of State will work closely with the two territorial Secretaries of State in developing policies for job creation will probably do as a first step. But some co-ordinating machinery will be needed later.

11. The transfer of the DTI functions will produce breaks in expertise and in contacts. Some schemes of financial assistance will also remain with DTI (eg those relating to micro-electronics, robotics etc). The expanded Department of Employment and the residual DTI will need to make their respective responsibilities clear to industry immediately, even if it is some months before the backing organisational changes are in place and working.

12. The transfer of DOE's urban work will break the links with DOE's housing work in inner cities and with local authority programmes. Local authorities (who are the main recipients of Central Government's urban aid) may see the transfer of functions to the Department of Employment as a threat of more direct Central Government intervention. They will also therefore need a clear signal from the start.

13. The main reorganisation needed will be in the DOE/DTI regional networks, on which the new Department of Employment network needs to be built. There will also be a fairly considerable task of reorganisation at Headquarters. Although staff will transfer with their functions, the DTI trade union side may oppose the move on the grounds that it comes only two years after the disruptive re-merger of the Departments of Trade

and Industry (and other changes) and at a time when the DTI has only just settled into its new shape. The impact of the announcement of the new Department could be dissipated if it is followed by some confusing months of "who does what". Resources will therefore need to be devoted to plan and deliver the changes to a firm timetable. [It could take six months to get all the new arrangements in place].