

PREM 19/850

PART 6 ends:-

Incl to HMT 30.6.82

PART 7 begins:-

E (82) 55 1.7.82



cx JV



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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 (2)

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.



CABINET OFFICE  
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 - 7798

Qc.03063

15 June 1982

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Nash

NBPM

MUS 15/6

Dear Secretary of State,  
NBC Objectives

John Sparrow, who is away this week, asked me to let you know that the CPRS has no further comments on the proposed objectives for the National Bus Company, in the light of your letter of 10 June.

2. I am sending copies of this letter to the Prime Minister and other members of E(NI).

Yours sincerely,  
*Alan Bailey*

A M BAILEY

The Rt Hon David Howell MP  
Secretary of State for Transport

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GC JV



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

2/11

Prime Minister (4)

MUS 10/6

John Sparrow Esq  
Central Policy Review Staff  
Cabinet Office  
Whitehall  
LONDON  
SW1

10 June 1982

Dear John

NBC OBJECTIVES

Thank you for your letter of 7 May, commenting on the draft objectives for the National Bus Company which I circulated with my minute of 1 March to the Prime Minister.

The point which you raise about the relationship between NBC's social and commercial objectives is clearly important. Let me explain how I see the position.

I am in no doubt that we do need to set a social objective for NBC. The one I have proposed, like the "operating remit" already in place, would require NBC to run as substantial a network of local bus services as possible to meet demand, subject to the constraint that they must meet their financial target. The effect of this is that any revenue the Company generate in excess of the amount needed to meet the financial

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target is to be used to maintain less profitable local and rural services through the mechanism of cross-subsidy. The financial target, in addition to being an expression of our financial policy, is thus the means by which we quantify the extent to which we are prepared to see taxpayers' money, in the form of revenue foregone, devoted to furthering the social objective of widely available bus services. If we preferred, we could achieve the same result by means of a central government grant and a stiffer financial target, but that solution has not been adopted up till now.

In this sense, the setting of NBC's overall financial target is a matter for political judgement - and rightly so. The present medium-term target, as you know, is simply a cash figure agreed between Departments on the basis of what seemed achievable and broadly acceptable a year or so ago. We shall be reviewing its appropriateness in the light of the forecasts in NBC's Corporate Plan together with progress on a separate track record and target for the express services as part of the steps we are taking towards privatisation.

I think it follows from what I have said that the answer to your second question, about the relationship between the main financial target and the coaching target is "yes". It is present policy for NBC's non-stage businesses to seek to earn a commercial return, and for this return to be used to enable NBC to provide more rural and local services within its financial target than would otherwise be possible.

I am anxious to let the NBC Chairman, Lord Shepherd, have the objectives as soon as possible. Subject to any further comments from colleagues, I would propose to send them to him during the first week in June.

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I am sending copies of this letter and yours to the Prime Minister and other members of E(NI), to George Younger and to Sir Robert Armstrong.

*Yours*

*David*

DAVID HOWELL

~~CONFIDENTIAL~~



Prime Minister (2) *sc* JV  
 \_\_\_\_\_  
 MS 21/5

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP  
 Secretary of State  
 Department of Industry  
 Ashdown House  
 123 Victoria Street  
 London SW1E 6RB

20 May 1982

*2 Patrick*

#### INVESTMENT & FINANCING REVIEW

Colleagues in E(NI) have agreed to the programme of Corporate Plan Reviews proposed by the Chancellor in E(NI)(82)12. Work on some of these Plans by officials in preparation for consideration by Ministers collectively is already well advanced. The industries' plans in aggregate will of course come forward for consideration in the Investment & Financing Review in July as part of the Public Expenditure Survey.

I do not want to pre-empt the discussions that are to take place over the next few months; but neither you nor colleagues generally will be surprised if I emphasise the importance of the published public expenditure figures as the reference point for these discussions. I fully appreciate that the industries as trading bodies are not precisely on all fours with administrative spending programmes, but the amount that they borrow is of course of great significance in our public expenditure plans. The requirements of financial discipline are equally relevant and beneficial to trading and non-trading bodies. In addition the need not to exceed the cash planning totals over the planning period does not allow us to contemplate any overall relaxation on the aggregate figures, and I of course reserve the right to put to colleagues proposals for seeking a reduction in the totals. Any increase for the nationalised industries as a whole is bound to mean less for other expenditure programmes. It is therefore essential that any increase in financing requirements over the agreed figures which are proposed by the industry are searchingly probed and when they are put forward clearly and fully justified: and that the scope for reductions e.g. by greater efficiency/productivity improvements etc is exhaustingly explored.

I should like to draw attention to one particular aspect. In last year's IFR many industries made assumptions about pay that all of us judged excessive when we came to EFL setting in the autumn;

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and assumptions about inflation that events have shown to be pessimistic. Forecasts of this kind are inherently uncertain. The industries are responsible for the realism of their plans and assumptions on matters such as GDP growth, inflation and pay are ultimately for them to decide. But I hope that you will try to ensure that their projections fully take into account the more favourable prospect for inflation that is now generally foreseen. This is particularly important for influencing the pay assumptions which will underlie the EFLs.

I am copying this letter to the Prime Minister and to other Members of E, Sir Robert Armstrong and John Sparrow.

*Lev*  
*Lev*

LEON BRITTAN



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7 6 5 4  
1 2 3

20 MAY 1982

*Prime Minister**(4) cc J.V.**ms 13/5*

*From the Secretary of State*

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
London SW1

13 May 1982

*Dear Geoffrey,*

You may recall that during the Commons debate on 30 November 1981 on the Public Accounts Committee report on the Comptroller and Auditor General, Nicholas Ridley stated that the membership and staffing of the Monopolies and Mergers Commission would be strengthened to deal with the increased workload which would flow from the expanded programme of nationalised industry references agreed by E(NI). The new programme was announced on 3 March by John Biffen.

MMC members are appointed on the basis that they devote on average one and a half days a week to the Commission; their comparatively low pay (£5421 a year) both reflects this and puts the Government in no position to ask members to volunteer unpaid extra time. In practice each nationalised industry enquiry tends to make significantly higher demands than one and a half days a week on the six members of the investigatory team involved and there will be up to three such teams to be manned at any time. That leaves too small a pool from which to select balanced teams for other references involving mergers, monopolies, anti-competitive practices and general competition issues.

I therefore propose to make a Statutory Instrument, subject to negative resolution, which will allow the maximum number of regular members of the Commission to be increased to 32 from the present ceiling of 27. The extra membership will provide the



*From the Secretary of State*

Chairman with the capacity to handle at any time either an extra nationalised industry enquiry or a merger and monopoly reference.

In the same spirit, I already have in hand the appointment to the MMC of 2 new members (which would bring the membership to its current statutory maximum).

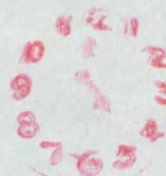
The financial aspect has already been put to Treasury officials and no objection has been raised.


I am copying this to members of E(NI), the Lord Privy Seal, Sir Robert Armstrong and Mr Sparrow (CPRS).

*Yours,  
Arthur*

LORD COCKFIELD

3 MAY 1982



  
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P.0738

PRIME MINISTER

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Nationalised Industries' Performance and Corporate Reviews: 1982 Programme

E(NI)(82)12

BACKGROUND

This paper by the Chancellor of the Exchequer sets out proposals for the first cycle of performance and corporate plan reviews (P & CP Reviews) of the nationalised industries. You will recall that the intention is to supplement the existing annual Investment and Financing Review (IFR) and the quarterly monitoring of External Financing Limits (EFLs) by a thorough examination of how each nationalised industry has performed in relation to its agreed targets, the main forward plans of each industry and trends in pay, pricing and productivity.

MAIN ISSUES


2. The objectives of the Chancellor's paper are threefold, namely:

(i) to seek E(NI)'s endorsement of how the P & CP Review system might operate once it has come properly into effect (paragraphs 2 and 3 and Annex A);

(ii) to get agreement to the timetable for this year's P & CP Reviews and the list of industries (see Annex C) which are to be the subject of collective Ministerial consideration by E(NI) this year;

(iii) to encourage sponsor Ministers to get the P & CP Review system into quick and effective operation (progress to date is summarised in Annex B).

Because of unavoidable difficulties in arranging the discussion in E(NI) some time has been lost; and it will be necessary to press Departments hard if the timetable for the period up to the Summer Recess is to be kept.

  
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### The General Approach


3. The general timetable for the operation of P & CP Reviews (Annex A to the paper) has been the subject of extensive inter-departmental discussions at official level, as has the detailed timetable for this year's programme of reviews (Annex C), and ought to be broadly acceptable to Ministers. But the proposed timetable will raise difficulties for those industries whose financial years are coincident with the calendar year, principally British Rail, the National Coal Board and the British Steel Corporation, or whose corporate planning cycles have for some other reason been geared to a different timetable to that now proposed, namely British Shipbuilders, the National Bus Company, the Scottish Transport Group and the Electricity Supply Industry in England and Wales. As paragraph 5 of the Chancellor's paper acknowledges, sponsor Ministers will need to agree with their industries on how the planning cycles of the industries concerned can best be adjusted to fit in with the P & CP Review system. In some of the big industries considerable upheaval may be involved and it may not, therefore, be possible for the necessary changes to have taken effect in time for the 1983 P & CP Review cycle. The industries concerned may also prove resistant to making the changes involved.

4. At this stage no specific decisions arise for Ministers on this aspect of the Chancellor's paper. No doubt sponsor Ministers will alert colleagues if the problems thrown up by individual industries prove particularly serious.

### The 1982 Programme

5. This is summarised in Annex C to the Chancellor's paper. It ought again to be possible to reach agreement quickly on the Treasury's proposals, which seem to be sensible. The proposed work programme, however, is a heavy one - especially as there has already been some slippage - involving discussion of one major nationalised industry, and the clearance in correspondence of two minor ones, each month during May to July. Moreover, in later years the programme will be heavier since this year discussion of British Shipbuilders and of the Railways Board will have to wait until the autumn; and this year there will be no proper P and CP Review of the National Coal Board, because of the

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change of chairman and the preparation of strategic objectives for the industry. It will therefore be important for P and CP Reviews to be submitted to timetable if a log-jam of major reviews just before the summer holiday period is to be avoided.

6. The Chancellor suggests in his paper that the draft of the proposed policy letter to the new chairman of the National Coal Board should be the subject of collective Ministerial discussion because of the major strategic and financial questions which it will need to address. The Secretary of State for Energy is likely to argue that it should be cleared in correspondence. But this letter will effectively map out the Government's strategy for the coal industry for the next five years and will therefore be of crucial importance. It seems unlikely that it will prove possible to clear it in correspondence. I suggest, therefore, that you might suggest that a draft should be put to E(NI) before the end of this month. There seems to be no reason why this should not be possible.

7. It will also be necessary to have discussed the British Steel Corporation by the end of May, British Telecom by early June, and the remaining industries as indicated in Annex C to E(NI)(82)12.

#### Progress to date with P and CP Reviews

8. Annex B to the Chancellor's paper summarises the work that has been undertaken so far with the preparation of the P and CP Review for each industry. Since that Annex was prepared there have been a number of developments. Work on the review for the British Airports Authority (BAA) has now been set in hand; and the Department of Industry has undertaken to start the review for British Shipbuilders and for Girobank within the next few weeks. So work is now in hand or about to start on all the reviews, or agreed alternatives to them, planned for this year.

9. Finally, the question may be raised whether the chairmen of the nationalised industries should each be given an opportunity to discuss the corporate plan of the industry concerned with Ministers collectively. You may recall that the Chancellor of the Exchequer floated this proposal when Ministers were considering how best to follow up the CPRS report on the nationalised industries,

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but it got a mixed reception; and in further discussion at official level departmental reactions to it have continued to be divided. What the Chancellor had in mind is that after Ministers collectively had considered the corporate plan of an individual industry and reached conclusions about it, the chairman of the industry concerned should have the opportunity to put his points about the plan to Ministers collectively so as to avoid any impression that the views of the industry were given insufficient weight by the Ministers in reaching an assessment of the performance and plans of each nationalised industry.

10. It ought to be the case that chairmen of the nationalised industries feel they have an adequate opportunity to put their case in their regular discussions with sponsor Ministers. The danger in introducing a new level of discussion between chairmen and Ministers collectively is that if a sponsor Minister fails to reach agreement with the chairman of an industry on an issue of major importance the chairman may press for an opportunity to put his case to Ministers collectively which would seriously undermine the relationship between sponsor Ministers and their industries. Furthermore, major changes have already occurred this year in the relationship between the Government and nationalised industries following the CPRS report and with the introduction of the P and CP system. It might therefore be preferable to allow these changes to work properly through and, in particular, to allow the P and CP system to get properly under way before introducing a further major change which this proposal would represent.

HANDLING

11. You will want to invite the Minister of State, Treasury to introduce the paper. I suggest that you might then focus the discussion on paragraphs 8 and 9 of the paper which summarise his proposals and recommendations. You may then wish to ask Mr Sparrow whether he wishes to comment. As time will be short, you will wish to invite comments only from those sponsor Ministers who see difficulty about the Chancellor's proposals.

CONCLUSIONS

12. You will want to record conclusions on:



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(i) the general arrangements for the performance and corporate plan review cycle in future years set out in Annex A to E(NI)(82)12;

(ii) the programme of P & CP Reviews (and analogous arrangements) for this year set out in paragraph 8 and Annex C to E(NI)(82)12, allowing only for the slippage that has already (and unavoidably) taken place;

(iii) whether the draft of the proposed policy letter to the new Chairman of the National Coal Board should be considered by E(NI) or cleared in correspondence.

(iv) the Chancellor's proposals in paragraph 9 of E(NI)(82)12 for ensuring that the P and CP process is brought into effective operation as soon as possible.

*PLG*

P L GREGSON  
Cabinet Office  
10 May 1982

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P.0737

PRIME MINISTER

Progress on Nationalised Industries

(E(NI)(82)10)

In this note the CPRS review progress in implementing the proposals in their report on Government/Nationalised Industry relations. The three most important points in the paper are the procedural suggestions on board size and composition (paragraphs 3 and 4), improving expertise in sponsor departments (paragraphs 8 and 9) and handling of future E(NI) business (paragraph 10). The annex contains a comprehensive summary of progress so far and further action which the CPRS considers necessary.

Item 2  
2. The paper also touches on performance and corporate plan appraisals, which are dealt with in E(NI)(82)12 under Item 2 of the Agenda. There should be no need to discuss the setting of nationalised industry objectives; that exercise is now in progress on the basis agreed at E(NI)(82)3rd meeting which the Chancellor took on your behalf.

MAIN ISSUES

Board Size and Structure

3. The CPRS report recommended that industries should have smaller boards than at present, with a majority of appropriately qualified non-executive directors particularly concerned with efficiency. E(NI)(82)10 proposes that sponsor Ministers should consider how they intend to apply these proposals to each industry; and that they should report to the Sub-Committee on their proposed timetable for doing so in July (as part of the reports which E(NI) commissioned at its last meeting on progress on implementing proposals in the CPRS report).

4. Although the CPRS proposal on board size and structure has been accepted in general by Ministers, it is possible that some Ministers may wish to argue that there are special reasons which make it inappropriate or impracticable in

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particular industries. If so, you will not wish the Sub-Committee to be drawn into detailed discussion of particular cases. Sponsor Ministers might therefore be invited to make out the case for any proposals for exceptional treatment when they report back to E(NI) in July on the timetable for implementing changes in board size and structure. Subject to this point (if it arises), there ought not to be disagreement with the CPRS proposal.

Improving expertise in sponsor Departments

5. The CPRS report recommended that greater understanding of business is needed in Departments, notably by increasing the length of time for which officials deal with nationalised industries; having career paths providing for more business training and a succession of 'industrial' postings (including outward secondments to business); and inward secondments of businessmen. E(NI) agreed in December to review in November 1982 the adequacy of the business expertise available in sponsoring Departments. The CPRS now propose that Management and Personnel Office and other Departments' officials should report specifically on the means for implementing the CPRS proposals for improving the business expertise of officials.


6. The Lord Privy Seal (letter of 28 April to the Chancellor of the Exchequer) has broadly accepted the CPRS suggestions for improving the business expertise of officials. You may wish to seek the views of E(NI) on whether her proposals go far enough. You may also wish to suggest that she should be invited to report more fully in, say, July for the guidance of departments. Departments can then report in November on what they are doing to implement the proposals.

Handling of future E(NI) business

7. The CPRS propose that the Chancellor might handle meetings of E(NI) which consider the objectives and corporate plans of smaller nationalised industries. We understand that you have discussed this with the Chancellor: it is, of course, a matter for you to arrange with him. You may wish to tell the Sub-Committee what you have decided (Mr Scholar's letter of 6 May).

HANDLING

8. Since time will be short and the paper is straightforward you may feel that there is no need to have it introduced and you could simply invite comments

  
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in turn on the CPRS proposals:

- (a) board size and composition; —
- (b) improving business expertise of officials; *ML*
- (c) any other proposals included in the annex to E(NI)(82)10, which Ministers wish to raise.

9. Any of the sponsor Ministers present may wish to comment on what the CPRS propose. The Minister of State, Treasury (attending in the unavoidable absence of both the Chancellor of the Exchequer and the Chief Secretary) is likely to express general support for them. The Lord Privy Seal will want to comment on the procedure suggested in relation to improving departmental expertise.

CONCLUSIONS

10. You will want the Sub-Committee to reach conclusions on:

- (i) whether sponsor Ministers should be invited to report back to E(NI) by July on how they are implementing the CPRS proposals on board size and composition together with a timetable for implementation;
- (ii) whether the Lord Privy Seal should be invited to report back to E(NI) in July on how the CPRS proposals for improving the business expertise of officials could be implemented;
- (iii) any other points raised in discussion.

*PLG*  
P L GREGSON  
Cabinet Office  
10 May 1982

10/14  
8/21

**CONFIDENTIAL**

✓

MR. SCHOLAR

cc: Mr. Walters

CPRS STUDY OF STATE MONOPOLIES:  
COAL AND ELECTRICITY

Although I think we should be sympathetic to the point made in the letter of 7 May from Mr. Lawson's Office, that the resources of their sponsor divisions are fully stretched by all the work now in hand on the nationalised industries, I do not think we can let his conclusions stand. It really is not good enough for sponsor Departments to imply that because they are so pre-occupied with current business, they do not have time to work out where they ought to be going.

Mr. Lawson suggests that the CPRS report be "confined to the essentials", and that is sufficiently vague as to be acceptable; but the decisions to which he refers of E(NI) on 21 April on nationalised industry objectives were rather far-reaching - the Chancellor, in his note to the Prime Minister reporting the outcome of that meeting, made it clear that these objectives would be commercial, political and social, and that they would provide a broad strategy within which corporate plans would be prepared. The CPRS check-list of objectives was not to be regarded as exhaustive. Mr. Lawson goes on to say that "real improvements" will be achieved by concentrating on the most important issues, and might be prejudiced by dissipating his Department's efforts: that comes close to saying that the handling of issues would be prejudiced by the establishment of proper objectives.

I suggest that we might wait and see how the Treasury and the CPRS respond to this letter before replying; then, if the Prime Minister agrees, you could simply reply in general terms stressing the importance she attaches to this exercise and to the other work on nationalised industries taking place under the aegis of E(NI).

J.V.

10 May 1982

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MR. SCHOLAR

cc: Mr. Walters

E(NI): 11 MAY 1982

I have looked again at the two papers on the agenda for tomorrow's meeting of E(NI), which were left over from the meeting of E(NI) chaired by the Chancellor on 21 April. I think the Prime Minister may find it helpful to refresh her memory of that meeting, the outcome of which is summarised in the Chancellor's minute to her of 26 April. The papers for discussion tomorrow do not raise particularly difficult or controversial issues, and the main purpose of this meeting is to keep up the momentum of work by sponsor Departments on the development of more satisfactory relationships with the nationalised industries, along the lines set out in the CPRS report of last summer. There will no doubt be a good deal of complaining by sponsor Ministers at the amount of work their Departments are being asked to do, and about the amount of detail to which they are being committed; as far as possible this ought to be resisted, because - as the Policy Unit has pointed out before - this work is only of value if it is taken beyond the level of generality and into questions of quantified objectives, against which progress can be measured, deadlines, and detailed administrative arrangements.

J.V.

10 May 1982

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DEPARTMENT OF THE ENVIRONMENT  
2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

fc 32

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

My Ref: K/PSO/32131/82

10 May 1982

NBPM

MW 11/5

Dan Nich,

Thank you for your letter of 28 April.

I would of course have no objection to your being represented by an observer when I meet water authority Chairmen to discuss objectives. I have not yet sent Chairmen the draft objectives but hope to do so very shortly. I will let you know as soon as a date to discuss them has been fixed.

On the procedure for circulating your draft objectives, this is for others to comment on but I believe that for the most part it should be possible to deal with the water industry by correspondence.

I am sending copies of this letter to the Prime Minister, members of E(NI), Alick Buchanan-Smith, Sir Robert Armstrong, and to John Sparrow.

TOM KING

2861 JAN 1 1982



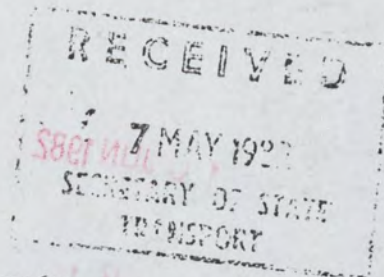
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CABINET OFFICE  
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: John Sparrow



CONFIDENTIAL

Qa 05914

7 May 1982

Dear Secretary of State,

Objectives for the National Bus Company

Your minute of 1 March to the Prime Minister attached draft objectives for the National Bus Company (NBC). Previous drafts have been discussed between your officials and members of the CFRS, but there is one further issue which I should like to see clarified. I am writing in the light of the discussion at E(NI) on 21 April of the procedure for agreeing objectives for nationalised industries.

Objective 1(c) states that non-stage trading activities should earn a commercial return on investment, but the objective for local and rural bus services is less clear. Are these also to earn a commercial return, or do social considerations weigh more heavily? Objective 1(b) provides that the business as a whole shall meet the medium term financial target established from time to time by you. The target is currently set as sufficient profit on a current cost accounting basis by 1985 so as to meet interest charges. This would seem to imply in conjunction with objective 1(c) that stage trading activities are to operate at a loss. Is this intended?

I am sending a copy of this letter to the Chancellor of the Exchequer.

Yours sincerely,  
John Sparrow

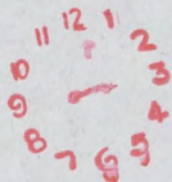
John Sparrow

The Rt Hon David Howell MP  
Department of Transport  
2 Marsham Street  
SW1

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10 JUN 1982





PA

fc JV

Prime Minister

(1)

SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ

01-211 6402

A somewhat contradictory letter. Unless you would prefer me to reply underlining the importance you attach to this work, it might be best not

7 May 1982

to reply at all. Agree?

MLs 10/5

Yes not

Michael Scholar Esq  
10 Downing Street  
London SW1

Dear Michael,

CPRS STUDY OF STATE MONOPOLIES

My Secretary of State has seen the correspondence following Mr Ibbs' minute of 29 March to the Prime Minister about the CPRS study of how to reduce the power of state monopolies. This study concerns one of the most important components of the Government's economic and political strategy and Mr Lawson has asked me to say that he wholeheartedly supports it. He welcomes the choice of coal and electricity as two of the areas for particular focus.

He has said that it is clearly necessary to devote sufficient departmental resources to ensure effective work on this important issue. At the same time, a number of other extra demands are currently being made on those same resources. In the case of this Department, these include matters such as the CPRS-led in-depth study of electricity pricing; the Cabinet Office review of our ability to withstand strikes in the key areas of electricity, gas and oil distribution; the MMC investigation of the NCB which will entail considerable follow-up work here; and the E&AD's selection of Coal Division here for their first exercise in reviewing Departments' sponsorship of nationalised industries which the Government invited them to undertake in its response to the PAC's Report on the Role of the Comptroller and Auditor General.

Such externally initiated reviews are in addition to the continuing normal sponsorship work for the energy industries, which is central to the Government's control of the public trading sector and which it wishes to improve in the light of its decisions on the CPRS report on relationships with the nationalised industries.



1 This Department has been able to strengthen its sponsor Divisions with some additional businessmen. Even so, the resources available will remain hard-pressed to cope with the variety of tasks outlined above. Given this cumulative demand, Mr Lawson believes it to be of the first importance that further work on the CPRS report on relationships with the nationalised industries is confined to the essentials. The decisions about nationalised industry objectives at E(NI) on 21 April were consistent with this and Mr Lawson hopes that the same approach will be adopted towards the rest of the CPRS report. He has asked me to say that the Government's ability to bring about real improvements in this troublesome area will depend on intensive and continuing attention by officials to the most important issues and this should not be prejudiced by dissipating their efforts too widely.

I am copying this letter to the private secretaries to other members of E(NI), Jim Buckley, David Wright and Gerry Spence.

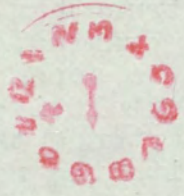
Yours ever,

*J D West*

J D WEST  
Private Secretary



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SUBJECT.



Not ind.

10 DOWNING STREET

✓ Cabinet Committee Scrabble  
: May 79

From the Private Secretary

Meeting set.

6 May 1982

The Chancellor of the Exchequer had a word with the Prime Minister this afternoon on several nationalised industries matters. The Chancellor said that he was concerned about the way in which the Government approached making new appointments to the Chairmanship and Boards of nationalised industries. It was often an unco-ordinated process, and there was a risk that the soundings of one sponsoring Minister might overlap, or be inconsistent with, those of another. He proposed that he should convene a meeting of the sponsoring Ministers in order to discuss how to improve co-ordination, and how to identify more effectively promising potential candidates for these posts. The Prime Minister said that it would be important not to set up a new piece of administrative bureaucracy. But she generally agreed with this approach, and hoped that some good would come of it.

The Chancellor also raised the Chairmanship, and the frequency of meetings of E(NI) Sub-Committee. The Sub-Committee had a good deal of detailed work ahead of it, and it was important, in order to keep up the momentum, to have fairly frequent meetings. The Prime Minister agreed, and said that she would like to chair the Sub-Committee when matters of particular moment were before it; otherwise, she was content for the Chancellor to chair its meetings.

I am sending copies of this letter to David Edmonds (Department of the Environment), Jonathan Spencer (Department of Industry), Anthony Mayer (Department of Transport), Julian West (Department of Energy), Muir Russell (Scottish Office), John Rhodes (Department of Trade), Terry Mathews (Chief Secretary's Office, HM Treasury), Barnaby Shaw (Department of Employment) and David Wright (Cabinet Office). A copy also goes to Gerry Spence (CPRS).

M. C. SCHOLAR

Peter Jenkins, Esq.,  
H.M. Treasury.

CONFIDENTIAL

*[Handwritten signature]*



MBPM  
Mus 6/5

**CABINET OFFICE**  
*Central Policy Review Staff*

With the compliments of  
John Sparrow

**GERRY SPENCE**

70 Whitehall, London SW1A 2AS  
Telephone 01-233 7765



CABINET OFFICE  
*Central Policy Review Staff*

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

CONFIDENTIAL

Qa 05911

6 May 1982

*Dear Martin,*

State Monopolies Study

Thank you for your letter dated 29 April to Mr Sparrow agreeing to inclusion of the water industry in the CPRS study on State Monopolies.

CPRS staff have already made contact with officials in the Department of Environment, and have learnt of the legislative proposals to create smaller boards for regional water authorities and to abolish the National Water Council. This first proposal is in line with recommendations in last summer's CPRS report on Government/nationalised industries relations. It was suggested then that the management of national industries is likely to be more effective with smaller boards, comprising 7 to 10 members, and well chosen non-executives who are in a majority. On the second proposal, we are aware that the National Water Council has not been very effective in negotiating wage rates, and since centralised pay bargaining is the main function of the NWC, we agree that there appears to be a strong case for its abolition.

We are grateful for the comments in the third point in paragraph 3 of your letter, and agree that the inefficiencies noted by the MMC on Severn-Trent may not stem solely from its monopoly position. However it is possible that these problems could have been eliminated earlier if the authority had been subject to market forces and had not been able to pass on the financial effects of the inefficiencies by way of increased water charges.

We are aware of the efforts which have been made through the MMC, consultants' examinations and scrutinies by Ministers and officials to

Martin Brasher Esq  
Department of the Environment  
2 Marsham Street  
SW1

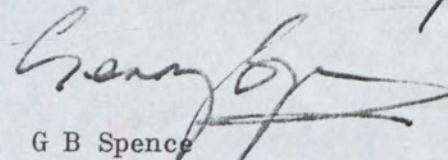
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reduce inefficiencies in water authorities and in private water companies. The point we were making in paragraph 13 of the annex to Mr Ibbs' letter of 26 March was that the present mechanism, whereby excessive profits are prevented in private water companies, may not be structured in such a way as to encourage efficiency.

Our state monopolies team will be discussing these points further with your officials, and will also want to review the initiatives being taken to encourage privately financed sewerage and sewage schemes and to promote privatisation.

I am copying this letter to the Private Secretaries of the other members of E(NI) and to David Wright.

*Yours sincerely*



G B Spence  
Private Secretary



446  
MAY 1982

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Secretary of State for Industry

Prime Minister

4

M/S S/S

DEPARTMENT OF INDUSTRY  
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TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

30 April 1982

John Sparrow Esq  
Central Policy Review Staff  
Cabinet Office  
70 Whitehall  
London SW1A 2AS

cc JV

ms

Dear John,

STATE MONOPOLIES

Thank you for your letter of 20 April.

On the basis outlined in your letter I am content that the CPRS Study on State Monopolies should cover telecommunications.

I am copying this to the Prime Minister, other Members of E(NI) and to Sir Robert Armstrong.

Your ever  
Patel

5 MAY 1982



CONFIDENTIAL



Prime Minister

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2 PPs

10 DOWNING STREET

30 April 1982

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON SW1

Dear Geoffrey,

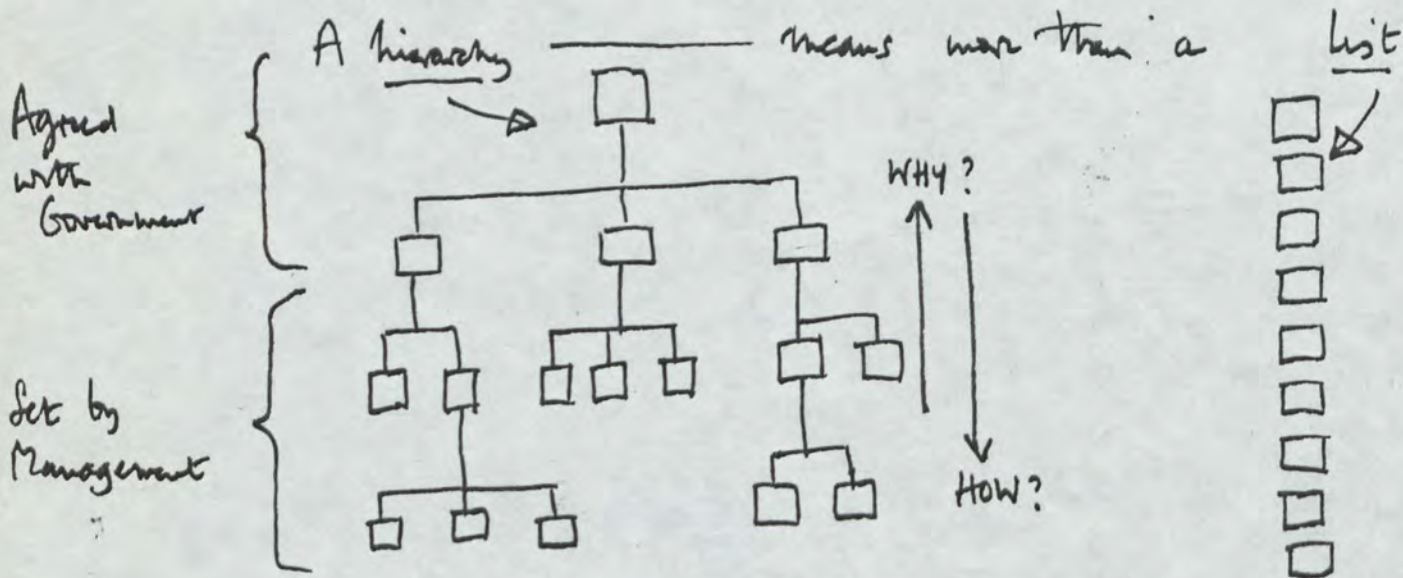
NATIONALISED INDUSTRY DRAFT OBJECTIVES

Your minute of 26 April says, in paragraph 7, that E(NI) had completed the examination of general principles of setting objectives. However, I noted some points at the discussion at E(NI) on 21 April, and I think it is worth putting them on paper, because it is so important to clear away all possible misunderstandings. In no particular order:

1. Everyone agrees that each NI is different and a "standard blueprint" is impracticable. In fact, CPRS never proposed a standard blueprint; simply a general approach which could then be tailored. The political dimension alone makes each NI virtually unique.
2. The operating budget, and operating management role, are crucial. But they cannot possibly be the total answer. For example, how could NCB or Government approach a decision like Belvoir by reference to an operating budget, but without reference to any long-term political/commercial/economic objectives? (Of course, for some "steady state" industries - water might be one - long-term objectives may be both easier to set and have much less influence on management decision-making.)
3. Everyone agrees that the appointment (and thus the selection process) of a new Chairman is the right moment to establish new objectives. But this raises two points. First, it would be better not to attempt the objective-setting exercise at all, than to agree a set of platitudes on a sheet of A-4 in order to appease a recalcitrant Chairman whom it would be difficult to remove for 2 or 3 years. This would simply help to discredit the idea of objectives and prove that it was "all a waste of time". Second, why not (and I think this was what we agreed) use the objective-setting exercise to calibrate the attitudes (and intelligence) of existing Chairmen and so sort out those who really mean it when they speak in favour of clear objectives, and those who are just making the right noises?
4. This approach is also more realistic as regards time. My guess is that it will take months rather than weeks to produce objectives which really mean anything. Much of the work can still be done, even where the Chairman is temperamentally opposed to its consequences.

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5. In my paper, I suggested that Chairmen who really wanted objectives would have an interest in defending the new framework, once it was developed. I was referring to the fundamental dilemma you mentioned in the discussion - what happens at a change of Government? What is the effect of the mere knowledge that there could be a change of Government? There is no completely satisfactory answer to that dilemma, but the right objectives, the right corporate strategies and the right Chairmen could add up to a regime robust enough (particularly if it involves, and is fully supported by, Departmental officials) to withstand the sillier ideas of future Governments.
6. No-one is suggesting that more precise objectives should imply a ridiculous precision in execution. We're not proposing a piece of paper that requires "pits numbers 1-15 to close in the 23rd week of 1983 - or else". But the Chairman must commit himself to some deadlines which he really tries to achieve; otherwise he need never even start to think about anything which he knows will be difficult.
7. There is a danger of considerable confusion as a result of laundry lists of objectives. The confusion disappears if the lists are arranged as hierarchies. This is because a structured hierarchy contains more information than a list:



Many items on lists turn out to be "sub-objectives"; that is, part of the how rather than part of the why. For example, although closure of uneconomic pits is an important matter, it is not in fact an objective. The NCB is in the business of providing coal within financial constraints. It does not exist for the purpose of closing old pits. It may close certain pits in order to deliver coal within financial constraints. So pit closure becomes a subsidiary objective, part of the "how".

8. This raises a further question. Is such a subsidiary objective to be left within the "span of discretion" allowed to NCB management, or is it something the Government will oblige the NCB to do? Almost certainly, it will be the former. For example, if NCB were able to find ways of greatly increasing

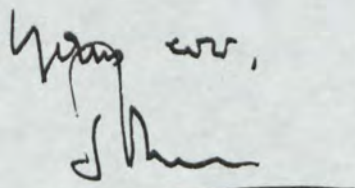
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productivity in the better pits, it may be able to satisfy the financial constraints and marketing requirements without closing so many old pits. Of course it will still be better if they can close them, but it is for management to decide to what extent closure of uneconomic pits is the sine qua non of meeting their performance criteria within the constraints of time (including management time - a very scarce resource) and money. In any case, if Government obliged NCB to close uneconomic pits by a certain date, then Government would be doing one of two (equally unacceptable) things. It would be intervening directly in the management of NCB by, in effect, making the judgment that pit closure is a sine qua non; or it would be elevating pit closure to the status of "top-of-the hierarchy" objective, to which all other objectives should be subsidiary - which would be crazy.

9. This raises yet a further point. As I said in my paper, good industrial relations, or, more specifically, improved employee involvement, cannot be a major objective for a particular NI. But good industrial relations, or improved employee involvement in NIs, may itself be a sub-objective of Government, contributing to the Government's broader aim of improving the industrial climate and weakening the influence of trade unions in the economy as a whole. So for the Government, employee involvement in NIs may be a subsidiary political objective; for NCB, it will simply be a "policy", part of the way they run their business.

I hope these comments will reduce the chances of further misunderstanding. This is an area where there is really no half-way house between being precise almost to the point of pedantry and just abandoning the whole exercise as too difficult. With nearly 2 million people employed in the NIs, 10-15% of the country's total fixed investment and something like 10% of GDP, I believe the rigorous definition of terms used is important.

I am copying this letter to the Prime Minister, other members of E(NI), John Sparrow and to Sir Robert Armstrong.



JOHN HOSKYNs

CONFIDENTIAL



DEPARTMENT OF THE ENVIRONMENT

2 MARSHAM STREET

LONDON SW1P 3EB

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NBPM  
ms 30/4

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

My Ref: H/PSO/12459/82

29 April 1982

Dear Mr Sparrow,

CPRS WORK ON STATE MONOPOLIES

Mr Ibbs' note of 26 March to the Prime Minister's Private Secretary invites comments on the work which the CPRS is now considering on the question of the power of state monopolies. This Department has a major interest since the water industry is one of the four proposed for detailed initial study.

We see no objection to the inclusion of the water industry in this study. Indeed, as the enclosure to Mr Ibbs' note suggests, it is in some respects a particularly suitable case study: the monopoly situation is very clear; the regional organisation of the industry is unique; and the water companies' involvement provides an instructive case study of one kind of alternative arrangement.

There are one or two points however which we would wish to make at the outset to avoid misunderstandings:

- First, as presently constituted water authorities have a majority of members appointed by local authorities although the Chairman of each authority is appointed by the Secretary of State. The Government reached the provisional view in 1980 that smaller boards modelled on the nationalised industries would be preferable and issued a consultation paper on the structure of water authorities. Responses to this, for which the closing date was 31 March, are now being examined.
- Secondly, the Government at the same time reached the view that the NWC should be abolished, but this conclusion also must remain confidential. This would have consequences for, among other things, wage bargaining in the industry, which is presently done centrally by the NWC. The level of wage settlements in the water industry is a matter for concern.

- Thirdly, although the monopoly position is clear, the problems listed in para 12 of the Annex to Mr Ibbs' note arise only in part (if at all in the case of items (b) to (e)) from the monopoly position. The list in this paragraph seems to rely mainly on the MMC report on Severn-Trent WA and not all water authorities have these problems. And the assertion in paragraph 13 that "the present system of regulation has not been established in a manner likely to encourage efficiency" seems to ignore the efforts that have been made over the last 2-3 years to improve matters, eg through the scrutiny by Ministers and officials of the Water Authority budgets aided by consultants' examinations, through the MMC enquiry into Severn-Trent Water Authority and the subsequent follow-up, and through the work that has been done to develop performance aims for the industry. These efforts are important if in fact nothing can be done to change the constitution of the industry for the time being.

While therefore much has already been done in the water industry, it is clearly useful to include them in the study and we will be very interested in any conclusions the CPRS may reach on the feasibility of privatisation of parts or the whole of the industry, an area in which we are interested in taking an initiative with a proposal for privately financed trunk sewerage and sewage treatment works on Merseyside.

I am copying this letter to the Private Secretaries of the other members of E(NI) and to Sir Robert Armstrong.

*Yours Sincerely,*

*Martin Brasher*  
2

MARTIN BRASHER  
Private Secretary



CONFIDENTIAL



*Prime Minister*  
*To Mr. Hon. Lord Dehghani 20/4*  
Management and Personnel Office  
Whitehall London SW1A 2AZ  
Telephone 01-273 { 4400  
GTN 273 }

28 April 1982

The Rt Hon Sir Geoffrey Howe, QC, MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON SW1P 3AG

*Dear Geoffrey,*

PROGRESS ON NATIONALISED INDUSTRIES: E(NI)(82)10

Because I am opening the Debate in the Lords on the Falklands tomorrow I shall not now be able to get to the meeting for this item. You might therefore like to have my comments in writing.

I welcome the comments by the CPRS on the staffing of nationalised industry sponsor divisions and support their view that a change of culture is needed.

The Management and Personnel Office has two contributions: first, organisation development work in departments and second, ensuring more specialisation, by way of postings and training, for staff in the sponsor departments dealing with nationalised industries.

Organisation Development studies

At the meeting of E(NI) on 3 December last I offered the help of our Organisation Development Specialists to Departments to bring about the kinds of changes in working practice and in culture which was felt necessary. Work has already begun in the Department of Trade where an MPO team is focusing, in the first instance, on relationships with the British Airports Authority. We are also hoping to do some work with the Department of Industry. We aim to work alongside the managers and staff in each sponsor division to help them bring about the necessary changes to improve effectiveness. The first stage in Trade should be finished early next month and we can then identify further work and look for results by November. Succession planning, training and the general expertise of staff is inevitably linked and will need to be tackled as part of the study.

Personnel Management approach

To bring about a shift in the Personnel Management regime in the Civil Service to ensure the right degree of professionalism in sponsoring divisions is no small task. Officials of the then Civil Service Department, in consultation with others, brought forward some proposals last year but after discussions with the CPRS these were thought not to go far enough. So, we need to be more radical and I want to ensure that we do this within the context of the

CONFIDENTIAL

recent Select Committee report on the efficiency of the Civil Service and MPO's own Early Tasks document. In the latter, we propose to look at ways of giving officials greater depth of experience in the first half of their careers, supplemented by broadening postings later on. I hope we can make considerable progress by November and establish the broad outlines of the approach and then go on to work up detailed proposals with other Departments. In the meantime, there is plenty that Departments themselves can do to increase the professionalism at their disposal and my officials are ready to help with advice on recruitment, exchange postings and training.

Copies of this go to the other members of E(NI) and to Sir Robert Armstrong.

*Yours ever*

*Dave*

BARONESS YOUNG

CONFIDENTIAL

SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ  
01 211 6402

SV  
Prime Minister (2)

MUS 29/4

The Rt Hon Sir Geoffrey Howe QC MP  
The Chancellor of the Exchequer  
HM Treasury  
LONDON SW1

28 April 1982

Dear Chancellor,

POWER ENGINEERS' PAY NEGOTIATIONS

In his letter of 15 April to Leon Brittan, David Mellor mentioned that the Electricity industry expect a difficult negotiation with the power engineers this year. At the latest meeting on 20 April the Electricity Council avoided making an offer, pending the result of the NJIC ballot which is due on 12/13 May. They expect to be under great pressure to make a final offer at the meeting of the NJB on 18 May.

John Lyons has made it clear that the engineers and managers (NJB/NJM) will not be content to have their salary scales compressed between the industrials at one end, and Area Board Deputy Chairmen at the other. The EPEA intend to resist tapering in the NJB scales as a minimum objective, possibly with industrial action. The Council believe they have plans ready to reduce the use of large, efficient plant through, for example, work to rule measures. Such disruption could lead to large extra costs, without necessarily hurting electricity users.

The Council are now considering their offer. To avoid tapering in the NJB/NJM scales they would need to offer increases amounting to 6.6% throughout. However, given their assumption that Area Board Deputy Chairmen salaries will not increase by more than 4%, this would imply the re-emergence of reverse differentials. They vigorously wish to avoid this and to preserve the small gap created by the increase which we made, exceptionally, in Deputy Chairmen salaries last year.

The Council are pressing for information about the likely award to Deputy Chairmen in order to help them tailor their offer on 18 May. They calculate that an award of between 5 and 6% would enable them to avoid any tapering, at least in the NJB part of the scale. I do not propose to invite them to make any different assumption about Deputy Chairmen salaries. If they believe the threat of industrial action to be a real one they will need to minimise the tapering of NJB/NJM scales. Should this result, in the event, in some slight reverse differential re-emerging for some Area Board Deputy Chairmen, this will have to be accepted as the lesser evil. Subject to your views, I shall be advising the Chairman of the Electricity Council in this sense.



I am copying this letter to the Prime Minister, other members of E,  
George Younger, Sir Robert Armstrong and John Sparrow.

*[Handwritten signature]*

*J.P. Clough*

NIGEL LAWSON

(Approved by the Secretary of State  
and signed in his absence)

29 APR 1982

6 1 2 1  
6 4 3 2  
6 9 7 8

Y SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switsfwrdd)  
01-233 6106 (Llinell Union)



Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

2pp  
SC IV

NBPM  
MUS  
30/4

WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switchboard)  
01-233 6106 (Direct Line)

28<sup>th</sup> April 1982

Dear Minister

Thank you for sending me a copy of your recent minute to the Prime Minister about follow-up action on the CPRS report on the Nationalised Industries as it affects the British Waterways Board and the water industry in England. I have also seen Geoffrey Howe's and John Sparrow's letters of 20 April to you.

I propose to take similar action to yours in respect of the Welsh Water Authority. As you know, this Authority is now differently constituted from the English authorities: in particular only four of its thirteen members are local authority representatives. The objectives I intend to formulate for the Welsh authority will be broadly on the same lines as those you envisage for the English authorities, but in view of the special problems of the Welsh authority I will have to lay special stress on financial objectives. I take Geoffrey Howe's point that we shall need to agree more precise individual objectives with the individual authorities and I certainly have this in mind in the case of the Welsh authority.

So that we can keep in touch with your thinking in England, I would like to send an observer from the Welsh Office to the meeting you propose to hold with your Chairmen in May. Perhaps you would confirm that this is acceptable to you.

I should also like to be brought into the E(NI) consideration of the application of the policy to the water industry. Following the preliminary discussions I will circulate a separate paper on the Welsh authority, as Geoffrey Howe has suggested.

I am sending copies of this letter to the Prime Minister, members of E(NI), Alick Buchanan-Smith, Sir Robert Armstrong and to John Sparrow.

Yours sincerely  
Carys Evans

Approved by the Secretary of State  
and signed in his absence

The Rt Hon Tom King MP  
Minister of State for Local Government  
and Environmental Services  
Department of the Environment  
2 Marsham Street



29 APR 1982

CONFIDENTIAL



~~cc JV~~  
Prime Minister (2)

To note

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

M/S 29/4

PRIME MINISTER

NATIONALISED INDUSTRY DRAFT OBJECTIVES

As you know, I took the chair at the meeting of the Ministerial Sub-Committee on Nationalised Industries (E(NI)) on 21 April. In the time available, it was possible only to deal with the first item on the agenda (nationalised industry draft objectives).

2. The Sub-Committee agreed that although the task of setting objectives for the nationalised industries was intrinsically difficult, it was important to press ahead with it. There was a danger of losing momentum through over-elaboration. What were needed were objectives which were

- as clear as circumstances permitted;
- limited in number;
- strategic, not tactical.

3. It was also agreed that, so far as possible, commercial objectives should be distinguished from political and social objectives; but that the objectives in all three fields should be mutually consistent and set simultaneously. If commercial objectives were set first, industry chairmen would use their existence to resist the imposition of objectives in other areas.

4. The Sub-Committee agreed that the aim should be to set objectives for each industry establishing a broad strategy





within which the corporate plan would be prepared. The headings in paragraph 6 of the note by the Central Policy Review Staff (E(NI)(82)11) constitute a check-list, not necessarily exhaustive, against which the adequacy of the objectives for this purpose could be assessed.

5. It was difficult to make fundamental changes in the objectives of a nationalised industry except on the appointment of a new chairman. Existing chairmen would have their own views on the appropriate strategy for their industry, and might well already have been set objectives by a previous Minister, or even a previous administration. On the other hand, it should be possible to reach a reasonable understanding with a chairman in post, even though it might fall short of the ideal.

6. Objectives should, so far as possible, be of a kind which could be disclosed to the industries since the main purpose of the exercise was to shape the policies of the industries. In a few exceptional cases the possibility might have to be considered that the presentation of an objective should be modified, for example while an existing chairman remained in office.

7. The Sub-Committee were firmly of the view that we have completed the examination of general principles; and that the next step should be to decide objectives for individual industries. The pattern of these is bound to vary from industry to industry: the circumstances of the industries are too varied for one model to be universally valid.

8. Clearly a good deal of detailed discussion will be required; and it would probably be unnecessary for this to be conducted in all cases in E(NI). The right course will probably be for each sponsoring Minister to draw up proposals with such assistance from CPRS and Treasury officials as he wishes to have;



to set out those proposals in correspondence copied to you, other members of E(NI), and any other colleagues whose interests are affected; for any differences of view to be resolved as far as possible informally by those principally concerned; and for the results then to be reported to E(NI). Only if it proved impossible to reach agreement in this way, or you or one of our colleagues thought that general issues were raised requiring collective discussion, would it be necessary for E(NI) to meet.

9. Ministers with sponsorship responsibilities for the nationalised industries will now arrange for further work to be done on the objectives for their industries, consulting my officials and the CPRS, and will be bringing forward proposals as soon as possible.

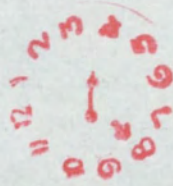
10. I am sending copies of this minute to other members of E(NI), to Mr Sparrow and Sir Robert Armstrong.

(G.H.)

26 April 1982



27 APR 1982



CONFIDENTIAL



Prime Minister (4)

MUS 20/14

J.C. J.V.

CABINET OFFICE  
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: John Sparrow

CONFIDENTIAL

Qa 05895

20 April 1982

Dear Minister of State,

Relations with Nationalised Industries  
Follow-up to the CPRS Report: BWB and the Water Industry

I have seen your letter about draft objectives for the water industry. I have some general points that Ministers may wish to take into account in E(NI) and a few detailed comments on the draft you circulated.

My main concern is that Ministers should be clear about what their long term objectives are for the water industry as a whole. What are their aims, for example, for the structure of the industry, pay and manpower, finance? General questions that need to be considered in this context are:

(i) Long-term Planning and Co-ordination between Regions

Long-term plans to meet future demands will be essential, and should be covered in each Authority's Corporate Plan. There is also a need to consider the future development of water resources over England and Wales as a whole. Whether or not the National Water Council is abolished, the responsibility presumably falls to the Department of the Environment who should consider the Water Authorities' Corporate Plans together as well as individually. For example, where it becomes clear that national needs could best be met by a substantial transfer of water resources from one region to another, the objectives for individual Authorities may need to be changed.

(ii) Standards of Service

At present, standards of service in terms of water supply, river pollution and sewage treatment are largely determined by Regional Water Authorities themselves with broad statutory backing.

The Rt Hon Tom King MP  
Minister of State  
Department of the Environment

CONFIDENTIAL

Enforcement is also left to the local authorities either directly or through local government representatives representing consumer and local interests. Do Ministers consider it appropriate that the establishment and enforcement of standards of service should be devolved in this way? Is there a case for more involvement by Central Government in standard setting while leaving responsibility for enforcement to authorities themselves with a regular audit?

(iii) Pay

The proposed abolition of the National Water Council will change the Water Industry's arrangements for pay bargaining. Will this lead to decentralised pay bargaining? Is decentralised bargaining preferable to the present centralised structure? (The Water Industry is one of the industries included in the CPRS State Monopoly Study.)

(iv) Charging

Industrial users are metered for water, domestic consumers are mainly charged via a proxy - the rating system. Although the facility for metering now exists, the present arrangements are likely to continue into the foreseeable future. Should a move be made towards metering? if not, how should the balance between charges for domestic and industrial consumers be struck?

Once Ministers have decided on what they want from the water industry, it will be easier to judge whether these draft objectives are right, and what specific targets they wish to negotiate with the Authorities. As background to the discussion of objectives for the water industry at E(NI), I think it would be helpful if your Department would circulate a short note on these broader issues.

Subject to the need to consider objectives in the context of the industry as a whole, I have only a few detailed comments to make on the draft attached to your letter. You rightly point out that these objectives will have to be made more specific to apply to each individual water authority. This draft is clearly too vague to be an effective set of objectives for a single authority, but it provides a useful framework within which to develop proper objectives. The objectives should ultimately be clearer about:

- (a) in objective (i), what standard of service should be provided

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and what levels and rates of increase of costs and tariffs would be acceptable;

(b) in objectives (ii) and (iii), what the "generally acceptable standards" are and how quickly they are to be achieved;

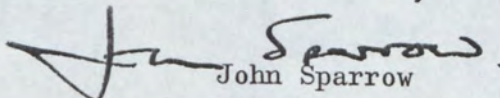
(c) in objective (iv), the need for consultation with the Department of the Environment (probably in discussions about the Corporate Plan) about the resources that will be available; and

(d) in objective (v), again, what the authority is expected to achieve and how quickly, specifying any medium or long-term targets.

As far as handling is concerned, I suggest that the water industry objectives could best be handled by a meeting of Ministers with the Chancellor in the chair, as recommended in E(NI)(82)10 (paragraph 10). The aim should be for Ministers to discuss objectives for nationalised industries collectively, to establish their own objectives before agreeing with Chairmen on the objectives that should be set for the industry. Any discussion of this or a subsequent draft with the Authorities at this stage should therefore be on the basis that this is a provisional discussion draft, not yet agreed by Ministers at E(NI).

I am sending copies of this letter to the Prime Minister, other members of E(NI), Secretary of State for Wales, Minister of State, MAFF, (Mr Buchanan-Smith) and to Sir Robert Armstrong.

*Yours sincerely,*

  
John Sparrow



✓ 5V  
New Ind  
Prime Minister (2)

CABINET OFFICE  
Central Policy Review Staff

MUS 20/4

70 Whitehall, London SW1A 2AS Telephone 01-233 7765  
From: John Sparrow

Qa 05900

CONFIDENTIAL

20 April 1982

Dear Secretary of State,  
State Monopolies

I have seen a copy of your minute of 13 April to the Prime Minister about the CPRS study on State Monopolies. I am glad that the CPRS is making a useful contribution to the preparation of the telecommunications legislation, and I fully understand (and share) your concern that your officials should not be diverted from their work on that legislation. However, I am sure that there need be no such diversion.

Given the remit to study means of reducing the power of State monopolies, including privatisation and regulation, the CPRS could not ignore BT as the largest test case currently being considered by Ministers. But fortunately, as you say, we are associated with the current work, and I am grateful for your agreement that we can have access to existing relevant material in your Department. We will draw on this material in the course of our study, and avoid making any significant extra demands on your officials' time, beyond talking to a few of the people directly involved before we seek to draw wider lessons for our report. I hope that on this basis you will be content that the study should go ahead and should cover telecommunications to this extent.

I am sending copies of this letter to the Prime Minister, other members of E(NI), and to Sir Robert Armstrong.

Yours sincerely,  
John Sparrow

John Sparrow

The Rt Hon Patrick Jenkin MP  
Department of Industry  
ASHDOWN HOUSE  
S W 1

CONFIDENTIAL



Prime Minister (2)

MLS 21/4

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

20 April 1982

The Rt. Hon. Tom King MP  
Minister of State for the Environment

RELATIONS WITH NATIONALISED INDUSTRIES: FOLLOW UP TO CPRS  
REPORT OBJECTIVES FOR THE WATER AUTHORITIES

I have seen a copy of your recent (undated) letter to the Prime Minister seeking agreement to circulate draft objectives to the Chairmen of the water authorities.

As you know, the normal procedure is that colleagues should discuss objectives for the industries collectively before anything is said to the Chairmen. I think that is a generally sensible approach which allows us to agree among ourselves what our overall strategy for an industry should be, even if progress cannot be made on all aspects immediately.

There are obvious difficulties in drawing up a set of objectives which apply equally to all water authorities and which will be public. I am sure you will do your best to agree something far more specific with each of them individually. Even so, I have two worries. The Chairmen of other industries may not understand why your draft objectives are fairly general compared to those they will receive in due course from their sponsor Departments. This may make it harder to get agreement to tight objectives for those industries. And the individual objectives agreed with each authority in this way may not add up to a sensible strategy for the industry as a whole.

Before you see the Chairmen, therefore, I think it would be useful if you could prepare a supplementary note for the members of E(NI) setting out more specifically what you think we should be aiming to achieve in the water industry in key areas such as manpower numbers, pay and productivity, level of charges, general financing policy etc, and setting out draft objectives under the sort of heading mentioned in the CPRS paper E(NI)(82)11, which we are due to discuss on 21 April.

/You mention





.....

You mention the structure of the industry, and the future of the NWC. As you will have seen from the note I am sending the Prime Minister today, I attach considerable importance to the abolition of the NWC. I hope we can find legislative time to implement that and also abolish the local authority membership of the Authorities. It would be helpful to have a progress report on your consultations about the future structure of the Authorities.

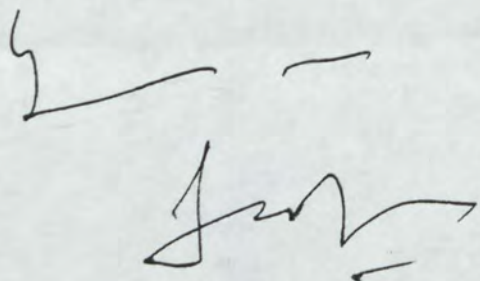
Once we have considered these questions, we can decide whether the draft objectives you have circulated are indeed the most that can be given to the Authorities at this time. Perhaps Nicholas Edwards could also consider whether there should be a separate paper on the Welsh Authority where there seem to be a number of more acute problems.

In the meantime, you could send out the draft objectives as a first shot for preliminary discussions with the industry. However, you would need to make clear in any letter you sent that a different procedure was being followed to that for nationalised industries because of the different circumstances of the water industry, and you would be seeking to agree very much more precise individual objectives with each of the authorities. Without this, I think you risk making the task of other Sponsor Ministers much more difficult.

On BWB, you have seen Leon Brittan's letter of 1 April to Michael Heseltine in which he suggests that the Inbucon Report should provide the basis for a radical look at the Board and our objectives for it.

I am copying this to members of E(NI), Nicholas Edwards, Alick Buchanan-Smith, Sir Robert Armstrong and John Sparrow.

GEOFFREY HOWE





Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

PRIME MINISTER

LEGISLATIVE PROGRAMME 1982-83

I have seen the Home Secretary's memorandum C(82)10, which we are to discuss in Cabinet on Thursday (22 April).

2. QL Committee has agreed that we must have a Water Bill in the next Session, but has concluded that it should be confined to raising the borrowing limits of the water authorities. I had hoped that it would be possible to find time for a wider Bill, as proposed by the Secretary of State for the Environment, and I hope that we can consider this further in Cabinet.

3. As you know, I attach particular importance to abolishing the National Water Council. Colleagues will remember that the council has been appallingly inept in managing pay settlements for the water workers. It has long been our intention to legislate the NWC out of existence. I think the time has come to will the means as well as the end.

4. I am sending copies of this minute to the other members of the Cabinet, and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.' with a stylized flourish.

(G.H.)

20 April 1982



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P.0719

PRIME MINISTER

Nationalised Industry Draft Objectives

(E(NI)(82)11)

BACKGROUND

At its last meeting E(NI) invited Ministers to circulate draft objectives for the industries which they sponsor. In E(NI)(82)11 the CPRS discuss a number of general issues arising from draft objectives; and comment on the draft objectives for the British Steel Corporation, the Post Office and BL attached to the letter of 12 March from the Private Secretary to the Secretary of State for Industry to the Private Secretary to the Chancellor of the Exchequer.

2. An important purpose of the discussion is to clarify the nature of the objective-setting exercise for nationalised industries and to enable Mr Ibbs, who has returned specially for this meeting, to explain more fully to sponsor Ministers the thinking which lay behind this proposal in the CPRS Report and to suggest how certain difficulties which sponsor Ministers have encountered in setting objectives might be overcome. The comments on the draft objectives for the BSC, Post Office and BL are partly included as test cases to bring out general issues about the exercise but also with a view to settling outstanding points in relation to those industries.

MAIN ISSUES

General

3. On the general nature of the objective-setting exercise the CPRS paper makes the following proposals:

- objectives on such matters as return to profitability should be clear, quantified and dated so as to expose difficult issues for Ministerial consideration

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- this may often mean that sensitive objectives are kept within Government on a limited circulation and that less sensitive or shorter term objectives should be discussed with Chairmen and published
- political and commercial objectives should be separated out
- each set of industry objectives should cover the headings a. to i. set out in paragraph 6
- draft objectives for no more than three industries should be discussed at a single meeting of E(NI).

4. As you know, some sponsor Ministers have misgivings about the objective-setting exercise. The difficulties which it throws up indeed go to the heart of the Government's relationship with the nationalised industries. The suggestion that, in sensitive cases, some of the objectives should be kept within Government on a limited circulation ought to help with some of the difficulties. If the exercise were to be abandoned it would mean that the Government was unable to clear its mind on what it wants from the nationalised industries and on what sort of steer it should give to those running the industries. You may therefore feel that, despite the very real difficulties, sponsor Ministers should be encouraged to press on with the exercise and to make what progress they can, taking account of the particular situations in each industry.

British Steel Corporation (BSC)

5. The CPRS suggest three changes to the draft objectives for BSC suggested by the Secretary of State for Industry:

- a. It should be an objective for BSC to meet its external financing limit.
- b. The Secretary of State's suggestion that BSC should aim to pay a "commercial dividend" on its capital should be made more precise.
- c. BSC's objectives should quantify what is meant by 'profitability' and say when the objectives of profitability and privatisation are to be achieved.



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6. E(NI) should not need to discuss the first two of these points: the Secretary of State can be invited to sort out the drafting of "commercial dividend" in correspondence with the CPRS and Treasury Ministers. On the third CPRS suggestion, the Secretary of State for Industry may argue that a precise deadline cannot be set for privatisation: market conditions are important. On the other hand, such uncertainties do not seem to preclude setting target dates against which progress can be measured; the Secretary of State for Industry ought also to be able to define what he means by 'profitability' for BSC.

7. The sub-Committee may have to come back to the subject of profitability and privatisation objectives when it discusses BSC's corporate plan in a few weeks' time.

#### Post Office

8. The draft objectives annexed to the Secretary of State for Industry's letter include a number of detailed targets, agreed by the Post Office and the Secretary of State, with which the CPRS are generally content; and a number of long term objectives, which the CPRS criticise as being insufficiently precise about the future of the Post Office.

9. The CPRS suggest that Ministers should consider:

- a. the probable conflict between economy and cost effectiveness on the one hand and maintaining a nationwide postal service on the other;
- b. what needs to be done to ensure compatibility between Post Office and British Telecommunications objectives;
- c. the appropriate structure for the Post Office and the scope for privatisation;
- d. the future of Post Office counter services.

This leads to the proposal that there should be a review of the long-term strategy for the Post Office.



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10. You will want the sub-Committee to consider this proposal for a review of Post Office strategy (which the Secretary of State for Industry may oppose) taking account of the following points:

a. Is it reasonable at this stage to try and form a long term strategy for the Post Office? The future of postal services depends critically on how telecommunications services develop. Are such developments in too great a state of flux at present to make this sensible? Or, on the other hand, are there long term investment and manpower decisions which the Post Office must take soon and for which it must have some idea of its long term future?

b. If a strategy going beyond the next two or three years is necessary, is a major review called for at this stage? The Government has twice referred the Post Office to the Monopolies and Mergers Commission; there was a departmental review in 1980 which covered at least some of the questions raised by the CPRS and led to the removal of the Post Office monopoly in some areas (for example express mail services). Another possibility, at least as a first step, would be to invite the Secretary of State to report to the sub-Committee, within say three months, on strategy for the Post Office, taking account of the CPRS comments and decisions on the future of British Telecommunications.


11. The CPRS also make comments on the drafting of two of the objectives which the Secretary of State suggests for the Post Office. You will want to invite them to sort out these details in correspondence.

BL

12. The CPRS suggest that Ministers should review the objectives for BL, particularly in so far as they relate to sale to the private sector, before Sir Michael Edwardes leaves the company towards the end of this year.

13. You will probably not want E(NI) to discuss this CPRS proposal. In the past you have preferred to deal with policy towards BL in a small group of Ministers; and any review of objectives will need to take account of what is decided about the future structure of the company, which you will be discussing in a separate meeting on 21 April. You will probably therefore want to say only that you will consider how future policy towards BL would best be handled.

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HANDLING

14. Since Mr Ibbs has returned specially for this meeting, you will probably wish to give him the main opportunity to speak on the CPRS paper, although Mr Sparrow will no doubt also wish to add some points. The Chancellor of the Exchequer and most members of the sub-Committee are likely to comment on the CPRS's general observations on defining objectives. When you move on to the specific points relating to the BSC and Post Office, the Secretary of State for Industry will be the main contributor.

CONCLUSIONS

15. You will want the sub-Committee to reach conclusions on the following points:

- i. The CPRS's general proposals for the way in which objectives should be set, summarised in paragraph 8 of the paper, ie:
  - a. clear objectives on such matters as return to profitability should be put to E(NI) for approval and that Ministers should decide collectively to what extent sensitive objectives are revealed to the industry chairman or published;
  - b. political and commercial objectives should be separated out as far as possible.
  - c. draft objectives should be evaluated against the criteria set out in paragraph 6 of E(NI)(82)11;
  - d. draft objectives for no more than three major industries should be discussed at a single meeting of E(NI);
  - e. draft objectives for all industries should be revised to take account of i., ii. and iii.
- ii. In relation to the draft objectives for BSC (perhaps subject to further consideration when E(NI) discusses the Corporation's corporate plan):



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- a. whether there should be an objective related to external finance;
- b. whether the objective relating to a "commercial dividend" should be made more precise;
- c. whether the objectives of "profitability" and "privatisation" should be made more precise.

iii. In relation to the Post Office, whether a long term strategy should be defined on the lines indicated by the CPRS and, if so, whether there should be a major review of the Post Office or some other procedure (for example, as a first step, an early report by the Secretary of State for Industry on possible strategy for posts).

16. You may also wish to indicate that you will consider what to do about future objectives for BL.

*PLG*

P L GREGSON

20 April 1982

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P.0718

PRIME MINISTER

Nationalised Industries' Performance and Corporate Reviews:  
1982 Programme  
(E(NI)(82)12)

BACKGROUND


This paper by the Chancellor of the Exchequer sets out proposals for the first cycle of performance and corporate plans reviews (P & CP Reviews) of the nationalised industries. You will recall that the intention is to supplement the existing annual Investment and Financing Review (IFR) and the quarterly monitoring of External Financing Limits (EFLs) by a thorough examination of how each nationalised industry has performed in relation to its agreed targets, the main forward plans of each industry and trends in pay, pricing and productivity.

MAIN ISSUES

2. The objectives of the Chancellor's paper are threefold, namely:
- i. to seek E(NI)'s endorsement of how the P & CP Review system might operate once it has come properly into effect (paragraphs 2 and 3 and Annex A);
  - ii. to get agreement to the timetable for this year's P & CP Reviews and the list of industries (see Annex C) which are to be the subject of collective Ministerial consideration by E(NI) this year;
  - iii. to encourage sponsor Ministers to get the P & CP Review system into quick and effective operation (progress to date is summarised in Annex B).

The general approach

3. The general timetable for the operation of P & CP Reviews (Annex A to the paper)



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has been the subject of extensive inter-departmental discussions at official level, as has the detailed timetable for this year's programme of reviews (annex C), and ought to be broadly acceptable to Ministers. But the proposed timetable will raise difficulties for those industries whose financial years are coincident with the calendar year, principally British Rail, the National Coal Board and the British Steel Corporation, or whose corporate planning cycles have for some other reason been geared to a different timetable to that now proposed, namely British Shipbuilders, the National Bus Company, the Scottish Transport Group and the Electricity Supply Industry in England and Wales. As paragraph 5 of the Chancellor's paper acknowledges, sponsor Ministers will need to agree with their industries on how the planning cycles of the industries concerned can best be adjusted to fit in with the P & CP Review system. In some of the big industries considerable upheaval may be involved and it may not, therefore, be possible for the necessary changes to have taken effect in time for the 1983 P & CP Review cycle. The industries concerned may also prove resistant to making the changes involved.

4. At this stage no specific decisions arise for Ministers on this aspect of the Chancellor's paper. No doubt sponsor Ministers will alert colleagues if the problems thrown up by individual industries prove particularly serious.

#### The 1982 Programme

5. This is summarised in Annex C to the Chancellor's paper. It ought again to be possible to reach agreement quickly on the Treasury's proposals, which seem to be sensible. The proposed work programme, however, is a heavy one involving discussion of one major nationalised industry, and the clearance in correspondence of two minor ones, each month during May to July. Moreover, in later years the programme will be heavier since this year discussion of British Shipbuilders and of the Railways Board will have to wait until the autumn; and this year there will be no proper P and CP review of the National Coal Board, because of the change of chairman and the preparation of strategic objectives for the industry. It will therefore be important for P and CP reviews to be submitted to timetable if a log-jam of major reviews just before the summer holiday period is to be avoided.

6. The Chancellor suggests in his paper that the draft of the proposed policy letter to the new chairman of the National Coal Board should be the subject of collective Ministerial discussion because of the major strategic and financial questions which it will need to address. The Secretary of State for Energy is



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likely to argue that it should be cleared in correspondence. But this letter will effectively map out the Government's strategy for the coal industry for the next five years and will therefore be of crucial importance. It seems unlikely that it will prove possible to clear it in correspondence. I suggest, therefore, that you might support the Chancellor of the Exchequer's proposal that a draft should be put to E(NI) before the end of this month.

Progress to date with P AND CP REVIEWS

7. Annex B to the Chancellor's paper summarises the work that has been undertaken so far with the preparation of the P & CP review for each industry. Since that Annex was prepared there have been a number of developments. Work on the review for the British Airports Authority (BAA) has now been set in hand; and the Department of Industry has undertaken to start the review for British Shipbuilders and for Girobank within the next few weeks. So work is now in hand or about to start on all the reviews, or agreed alternatives to them, planned for this year.

8. Finally, the Chancellor of the Exchequer may raise the question whether the chairmen of the nationalised industries should each be given an opportunity to discuss the corporate plan of the industry concerned with Ministers collectively. You may recall that the Chancellor of the Exchequer floated this proposal when Ministers were considering how best to follow up the CPRS report on the nationalised industries, but it got a mixed reception; and in further discussion at official level departmental reactions to it have continued to be divided. What the Chancellor had in mind is that after Ministers collectively had considered the corporate plan of an individual industry and reached conclusions about it, the chairman of the industry concerned should have the opportunity to put his points about the plan to Ministers collectively so as to avoid any impression that the views of the industry were given insufficient weight by the Ministers in reaching an assessment of the performance and plans of each nationalised industry.

9. It ought to be the case that chairmen of the nationalised industries feel they have an adequate opportunity to put their case in their regular discussions with sponsor Ministers. The danger in introducing a new level of discussion between chairmen and Ministers collectively is that if a sponsor Minister fails to reach agreement with the chairman of an industry on an issue of major importance the chairman may press for an opportunity to put his case to Ministers collectively



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which would seriously undermine the relationship between sponsor Ministers and their industries. Furthermore, major changes have already occurred this year in the relationship between the Government and nationalised industries following the CPRS report and with the introduction of the P and CP system. It might therefore be preferable to allow these changes to work properly through and, in particular, to allow the P and CP system to get properly under way before introducing a further major change which this proposal would represent.

#### HANDLING

10. You will want to invite the Chancellor of the Exchequer to introduce his paper. I suggest that you might then focus the discussion on paragraphs 8 and 9 of the paper which summarise his proposals and recommendations. You may then wish to ask Mr Sparrow whether he wishes to comment. As time will be short you will wish to invite comments only from those sponsor Ministers who see difficulty about the Chancellor's proposals.

#### CONCLUSIONS

11. You will want to record conclusions on:

- i. the general arrangements for the performance and corporate plan review cycle in future years set out in Annex A to E(NI)(82)12;
- ii. the programme of P & CP reviews (and analogous arrangements) for this year set out in paragraph 8 and Annex C to E(NI)(82)12;
- iii. whether the draft of the proposed policy letter to the new Chairman of the National Coal Board should be considered by E(NI) or cleared in correspondence.
- iv. the Chancellor's proposals in paragraph 9 for ensuring that the P & CP process is brought into effective operation as soon as possible.

*Pg*  
P L GREGSON

20 April 1982

4

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Nat. Industries

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P.0717

PRIME MINISTER

Progress on Nationalised Industries

(E(NI)(82)10)

In this note the CPRS review progress in implementing the proposals in their report on Government/Nationalised Industry relations. The three most important points in the paper are the procedural suggestions on board size and composition (paragraphs 3 and 4), improving expertise in sponsor Departments (paragraphs 8 and 9) and handling of future E(NI) business (paragraph 10).

2. The paper also touches on setting objectives and performance and corporate plan appraisals, the subject of the other two items on E(NI)'s agenda. The annex contains a comprehensive summary of progress so far and further action which the CPRS considers necessary.

MAIN ISSUES

Board Size and structure

3. The CPRS report recommended that industries should have smaller boards than at present, with a majority of appropriately qualified non-executive directors particularly concerned with efficiency. E(NI)(82)10 proposes that sponsor Ministers should consider how they intend to apply these proposals to each industry; and that they should report to the sub-Committee on their proposed timetable for doing so in July (as part of the reports which E(NI) commissioned at its last meeting on progress on implementing proposals in the CPRS report).

4. Although the CPRS proposal on board size and structure has been accepted in general by Ministers, it is possible that some Ministers may wish to argue that there are special reasons which make it inappropriate or impracticable in particular industries. If so, you will not wish the sub-Committee to be drawn into detailed discussion of particular cases. Sponsor Ministers might therefore be invited to make out the case for any proposals for exceptional treatment when they

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report back to E(NI) in July on the timetable for implementing changes in board size and structure. Subject to this point (if it arises), there ought not to be disagreement with the CPRS proposal.

Improving expertise in sponsor Departments

5. The CPRS report recommended that greater understanding of business is needed in Departments, notably by increasing the length of time for which officials deal with nationalised industries; having career paths providing for more business training and a succession of 'industrial' postings (including outward secondments to business); and inward secondments of businessmen. E(NI) agreed in December to review in November 1982 the adequacy of the business expertise available in sponsoring Departments. The CPRS now propose that Management and Personnel Office and other Departments' officials should report specifically on the means for implementing the CPRS proposals for improving the business expertise of officials.

6. The Lord Privy Seal, as the Minister responsible for the MPO, could be invited to report to the sub-Committee on how the CPRS's proposals for improving the business expertise of officials could be implemented. It would be preferable to have this report in say July for the guidance of departments. Departments can then report in November on what they are doing to implement the proposals.

Handling of future E(NI) business

7. The CPRS propose that the Chancellor might handle meetings of E(NI) which consider the objectives and corporate plans of smaller nationalised industries. You had it in mind from the outset that the Chancellor might chair meetings of E(NI) on some of the less important issues and this proposal fits in with that. It is however a matter to be arranged between you and the Chancellor, rather than to be decided by E(NI).

HANDLING

8. Since time will be short and the paper is straightforward you may feel that there is no need to have it introduced and you could simply invite comments in turn on the CPRS proposals on:

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- a. board size and composition;
- b. improving business expertise of officials;
- c. any other proposals included in the annex to E(NI)(82)10, which Ministers wish to raise.

9. Any of the sponsor Ministers present may wish to comment on what the CPRS propose. The Chancellor of the Exchequer is likely to express general support for them. The Lord Privy Seal will want to comment on the procedure suggested in relation to improving departmental expertise.

#### CONCLUSIONS

10. You will want the sub-Committee to reach conclusions on:

- i. whether sponsor Ministers should be invited to report back to E(NI) by July on how they are implementing the CPRS proposals on board size and composition together with a timetable for implementation;
- ii. whether the Lord Privy Seal should be invited to report back to E(NI) in July on how the CPRS proposals for improving the business expertise of officials could be implemented;
- iii. any other points raised in discussion.

*PLG*  
P L GREGSON

20 April 1982

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Prime Minister's  
MUS 20/4  
20 April 1982

Policy Unit

PRIME MINISTER

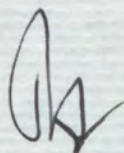
E(NI): NATIONALISED INDUSTRY DRAFT OBJECTIVES

The draft objectives proposed so far are scarcely worth the paper they are written on. There is no chance that they will concentrate the minds of NI top management to produce different attitudes or performance.

The correspondence suggests no shared understanding of the CPRS proposals, so that constructive discussion may be very difficult.

I therefore attach a paper designed to increase understanding of what is, unfortunately, quite a complicated subject.

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



JOHN HOSKYNS

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NATIONALISED INDUSTRY OBJECTIVES1. INTRODUCTION

1.1 The correspondence and draft objectives to date suggest a lot of misunderstanding among colleagues. The evident confusion shows how little thinking has been done, within Departments, about these massive industries. There is a real danger that sponsor Departments, knowing nothing about business planning, will successfully rubbish the first attempt to impose it.

1.2 If we are to avoid a dialogue of the deaf, we need a properly understood model of what we are trying to do. This means greater precision about the meanings of the words we use. This paper briefly outlines a possible model (following, as far as possible, the format used in the CPRS paper E(NI(82)11). What matters is not whether the model suggested below is the right one, but that we do have an agreed model.

2. THE ROLE OF OBJECTIVES

2.1 We should not confuse "objectives" and "strategy". There may be several strategies which would achieve a particular set of objectives. But we cannot set the objectives in isolation or they will be meaningless.

2.2 To start, we should extrapolate the semi-monopoly industries' performance (prices, service quality, taxpayers' subsidy) into the future on unchanged policies.

2.3 We can then have a first shot at establishing objectives which are economically and politically acceptable. It is the gap between the extrapolation (what business planners call the "momentum line") and the objectives, which must be closed by an appropriate strategy. (If there was no such gap-closing, an industry would only need operating management, not strategic management.)

2.4

But all this has to be done in the real world - that is within constraints: time; money; social/political; and statutory requirements. Since it may not be possible to achieve the desired objectives within these constraints (ie it may not be possible to get from "here to there") the establishing of objectives, constraints and strategy will be iterative (ie trial and error) on paper. And they have to be negotiated with those who must carry them out.

2.5

But all this is still not enough if there are no penalties for failure and no rewards for success. Somehow, these have to be built into the system.

3.

CLARITY OF OBJECTIVES

3.1

Types of objective

3.1.1

We agree with CPRS that we will need Ministerial Objectives. We think it most unlikely that, in practice, they can be covert objectives - that is, not revealed to the Chairmen concerned. They will often be subsidiary to the main performance objectives. For example, if we believed that the NCB could satisfy customers without ripping off the taxpayer, we would not need to consider increasing imports; privatising open-cast mines; regionalising NCB to get internal competition. The aim is to change the competitive environment in a way that no NCB Chairman would volunteer to do. So we do it for him.

3.1.2

Another Ministerial Objective might be to ensure that the British Rail Board was not in the business of "running a railway", but of using BR's assets, real estate and rights of way to produce the most cost-effective public transport. Such thinking will never come from BRB. (Privatisation, it goes without saying, is the only total solution to the NI monopoly problem. But its impact is only marginal.)

3.1.3

Performance Objectives might be set in absolute (real money) terms; or by reference to earlier historic performance; or

by comparison with other industries, or best practice in similar industries in other counties.

3.1.4 It is a waste of paper to set down normal management practice (eg maintaining good industrial relations) as if it was a Performance Objective. The test is simple. Would exemplary performance in IR compensate for massive failure on, say, break-even/profitability? Good industrial relations are a means, not an end. Similarly, an objective (like that in British Shipbuilders' draft objective, item 3) "to take early firm corrective action", is meaningless. Objectives are about results, not conduct.

3.2 Constraints

3.2.1 Time. Many of the draft objectives refer to returning to profitability, privatising peripheral operations etc, but without any time limit. Nothing will happen unless there are time limits, and explicit consequences for failure to meet them.

3.2.2 Money. The bottom line constraints (break-even/profitability, EFLs, subsidies, public dividend capital etc) are not objectives. Some draft objectives refer to "meeting the EFL" as if it were one. Not to break a financial constraint cannot itself be an objective, any more than it would be sensible for ICI to say that, over the next 5 years, one of its major objectives was not to run out of cash. Breathing, like cash flow, is necessary for survival. But we don't live in order to breathe.

3.2.3 An example: do we simply accept the momentum line of BR's future subsidies, or do we set a constraint (rather like the MTFS) where the annual subsidy to British Rail is a steadily declining percentage of GDP? If we set such a constraint, how do we enforce it? For we know that, in the real world, we may also have to impose some constraint on NI prices, despite all our original hopes of an "arm's length" relationship.

3.2.4 This brings us to pay. If prices are to be curbed and subsidies reduced, pay must be constrained. (And we

want that anyway, to reduce its knock-on effects elsewhere in the public sector.) So pay constraints will have to be explicit. This in turn will mean close co-operation between Departments and NIs to resist excessive pay claims and, if necessary, fight and win major strikes. (This affects restrictive practices too.)

3.2.5 Other constraints. NIs may have to operate uncommercially for political or social reasons, and that will have to be separately costed and paid for. But this must not allow NI management to muddy the waters and conceal poor performance elsewhere.

3.3 Objectives and constraints should be as specific as possible

3.3.1 Because of all these complications, it is tempting to resist "over-precise" objectives. They are fine, the argument runs, for private sector companies where life is simpler. But the reverse is true. It is the very ambiguity of the NIs' position that makes clear objectives so necessary. But thinking out those objectives will be hard work.

3.3.2 Resistance to this thinking is shown by the vagueness of the draft objectives in their present form. For example, there is frequent reference to use of the words ". . . as agreed with the Secretary of State". Indeed, some of the objectives are little more than a repetition of the check list suggested in the original CPRS paper, without any of the numbers, company names or dates which would give them meaning. The test is simple. How do you know when you have achieved an objective? If it's not possible to tell, then you haven't got any objective. And be quite clear, that's the way some NI Chairmen like it.

4. OBJECTIVES HAVE TO BE NEGOTIATED

4.1 The Department cannot simply hand a set of objectives to the NI Chairman. It will need his and his management's know-how to work out attainable objectives and then approve his strategy. The problem is that no-one knows what realistic objectives for a nationalised industry would be,

because all concerned, in the industries and the Departments, have for years accepted, without question, a frame of reference in which there are no objectives, no measurable achievement, and no sanctions.

- 4.2 Once a new framework exists, NI Chairmen will start to sweat about objectives. Indeed, they may become clearer in their own minds about the level of remuneration (as opposed to Knighthoods). They may also become less complacent and corporatist about trade union power, rather than simply settling for "doing their best", as far as their trade unions will permit.
- 4.3 The NI Chairmen have said that they would welcome clear objectives and a clear strategic framework. We should take them at their word on the basis that, once the new regime is functioning, they will themselves have some interest in defending it.

5. CONCLUSION

- 5.1 The difficulty Departments are having in producing objectives is not evidence that objectives are a waste of time. If the objectives could be knocked out in an afternoon (and that is what some of the drafts look like) they would be of little value.
- 5.2 The process of thinking about the objectives will be more valuable, in the end, than the resulting pieces of paper. There is no real solution to the problem of semi-monopoly NIs, once we have privatised all that can be privatised. We cannot talk about objectives without talking about what is politically possible in the long term, and about constraints of time and money, and the selection and remuneration of Chairmen. Almost certainly, the relationship between Government and NI Boards has to become closer, not more distant. And the need for business thinking within the Departments becomes increasingly obvious. The NI problem is indivisible. So is the solution.

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~~cc JV~~  
Prime Minister (4)  
ms 19/4

PRIME MINISTER

STATE MONOPOLIES

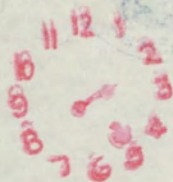
I have seen Mr Ibbs' minute of 26 March and am generally content with the outline proposals.

I note that regional or local pay bargaining is contemplated as a substitute solution where monopoly power cannot be weakened. I am not opposed to this approach being studied, indeed I have a good deal of sympathy with it, but we should not assume in advance that it is necessarily the best solution in all circumstances. I feel that it would be best to look at this case by case against the circumstances of each industry.

I am copying this minute to the other Members of E(NI) and to Sir Robert Armstrong.

NJ

19 APR 1982







10 DOWNING STREET

From the Private Secretary

19 April 1982

Dear Jonathan,

STATE MONOPOLIES

The Prime Minister was grateful for your Secretary of State's minute of 13 April about the CPRS study of state monopolies.

The Prime Minister has commented that she hopes that the CPRS study will go ahead as planned, with its section on telecommunications. She has further commented that telephone charges are very high and that there should be no delay in the CPRS's work in this area.

I am sending copies of this letter to the Private Secretaries to members of E(NI) and to David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

Jonathan Spencer, Esq.,  
Department of Industry.

JU177



PRIME MINISTER

STATE MONOPOLIES

Robin Ibbs sent me a copy of his minute of 26 March about a CPRS study of state monopolies.

2 While I have no doubt that a study along the lines proposed could be valuable, I am concerned that one of the industries proposed for study is telecommunications. My officials concerned with telecommunications are already extremely heavily pressed with work on the proposed legislation (which Ministers will be considering in E(TP)), and to divert a significant part of their efforts on to a study of the kind proposed by the CPRS could put the already tight legislative timetable seriously at risk. I do, of course, welcome the input the CPRS are making to the preparation of the telecommunications legislation; but in order to minimise duplication and waste of time I should prefer their input to continue to be made direct into the discussions on the legislation rather than via a separate study with its own timetable for conclusions and decisions.

3 That said, I should naturally be entirely happy for the CPRS to draw on any existing material in my Department for any lessons it may hold of relevance to other state monopolies.

4 I am copying this minute to the other Members of E(NI) and to Sir Robert Armstrong.

Prime Minister

(2)

To note. I have already

recorded your agreement

to the CPRS study outline. But I do not

think what is said here is inconsistent

with that ; or that you need comment

on this minute (it ~~will~~ <sup>would</sup> be a

different matter if John Sparrow <sup>couldn't</sup> ~~can't~~

progress because of difficulties with DoI).

MCS16/4

PJ

P J

13 April 1982

CONFIDENTIAL

MR. SCHOLAR

~~Mr Vercher o/R~~

~~Dr Patten~~

PA

Dr Jenkin has now commented, & my views on his point about BT are at (ii) below & in the last para.

Oh X, The PM was very keen that the CPRS should do this work. So I don't see much point in asking JS for his views at this stage.

c.c. Mr. Hoskyns

MCS 8/4

N. 17/4

State Monopolies

I am sorry that, because my first copy of Robin Ibbs' note to you of 26 March apparently went astray, the Policy Unit did not provide advice in time to be taken into account by the Prime Minister when she saw those papers. But you have been kind enough to hold up your reply to Robin Ibbs, and I offer the following thoughts about his note and enclosure, based on some discussion with the CPRS:-

X |

- (i) This was very much a valedictory recommendation by Robin Ibbs: there might be something to be said for asking John Sparrow for his views, before the Prime Minister commits him to a largish piece of work - and one which will add considerably to the proportion of CPRS time already devoted to nationalised industries.
- (ii) At first sight, what Robin Ibbs proposed entails considerable duplication with work going on elsewhere. But I think what the CPRS intend, and perhaps your reply might reinforce this, is that the work on particular industries will not throw up recommendations about the handling of those industries (because this is already going on in E(NI), TP(O), MISC 69, MISC 72, etc.), but in order to learn lessons from particular categories of monopoly activity. Thus, for instance, electricity, water and gas will throw up issues relating to natural monopolies (i.e., those where initial capital costs of entering the industry are prohibitively high); and telecoms illustrates the way in which the regulatory regime can dilute monopoly power. But even so, a very substantial amount of work is being done specifically on the monopoly position of BT,

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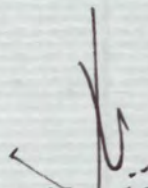
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and I doubt if the CPRS will need to do other than draw conclusions from it.

- (iii) Robin Ibbs' reference to union power, in paragraph 2, which is expanded in his detailed annex, also seems to point towards duplication of the work being undertaken in Robert Wade-Gery's various covert groups, and certainly there is no point in encouraging the CPRS towards work on employment legislation as a means of curbing union power. But I think there is a useful area to be covered falling between the two, which is the extent to which industrial structure and pay bargaining mechanisms might be relevant to union power - Robin Ibbs touches on these in paragraph 6 of his annex.

In this context you should know that Sir Robert Armstrong will be minuting the Prime Minister later this month with the recommendations of Robert Wade-Gery's group on what further work should be done of a MISC 57 type. The likely order of preference will be electricity, gas, oil distribution, ports, and industrial gases: but that work will not of course extend to fundamental reappraisal of monopoly power.

In short, and given that the Prime Minister has already endorsed the principle of work on state monopolies, I think what Robin Ibbs proposes is sensible provided that it does not entail going over work which has already been done, and concentrates instead on drawing out general lessons from it.

  
7 April, 1982.

Not Innd  
- Pol



SV

Prime Minister (2)

CABINET OFFICE  
Central Policy Review Staff

MUS 8/4

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: John Sparrow

Qa 05884

CONFIDENTIAL

7 April 1982

Dear Nigel,

BGC Consultancy Study

I have seen your letter of 5 April to the Chief Secretary <sup>- TPM</sup> setting out draft terms of reference for the proposed BGC Consultancy Study.

Although the points made by Robin Ibbs in his letter of 26 February on efficiency objectives are fully covered in the draft, I note that there is no longer any mention of 'organisation and structure'. I understand that there may be difficulties in getting BGC to accept a specific reference to these issues but I would like to be sure that the second part of the terms of reference can be interpreted sufficiently widely to enable the Consultants to consider these areas.

I am sending a copy of this letter to the Prime Minister, members of E(NI), and to Sir Robert Armstrong.

Yours sincerely,

John Sparrow

The Rt Hon Nigel Lawson MP  
Department of Energy  
THAMES HOUSE SOUTH  
S W 1

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Not Ind  
Pd

Prime Minister (4) /k SV

Ms 7/4



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nigel Lawson MP  
Secretary of State  
Department of Energy  
Thames House South  
Millbank  
London SW1P 4QJ

7 April 1982

*[Handwritten signature]*

*[Handwritten signature]*

BGC CONSULTANCY STUDY

*TPM*

Thank you for your letter of 5 April about the jointly commissioned study of BGC's organisation and efficiency by management consultants.

The terms of reference cover the ground admirably except that I was surprised to see no reference to the Corporation's "organisation and structure", which you indicated in your minute of 19 February to the Prime Minister would be an important element in the study. This point could easily be met by amending the second term so that it read:-

"Investigate whether the management, financial controls, organisation and structure, and methods of operating are..."

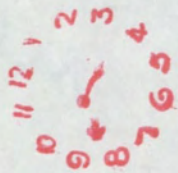
Could I therefore suggest that the terms of reference should be amended in this way. If you cannot persuade BGC to accept this amendment, perhaps you could confirm that the consultants will nevertheless be examining the Corporation's "organisation and structure", for example to consider, among other matters, the case for the adoption of a profit centre approach to financial management and control.

I am copying this letter to the Prime Minister, other members of E(NI), John Sparrow and Sir Robert Armstrong.

*[Handwritten signature]*

LEON BRITTAN

7 APR 1982



CONFIDENTIAL



10 DOWNING STREET

*From the Private Secretary*

MR SPARROW

The Prime Minister has seen Mr. Ibbs' minute of 26 March, to which was attached a programme outlining the further work envisaged on the CPRS study on state monopolies.

The Prime Minister is content with the study outline, and, subject to comments from colleagues, she wishes the CPRS to aim to produce their report on these lines for consideration by Ministers after the summer recess.

I am sending a copy of this minute to the Private Secretaries to the members of E(NI) and to David Wright (Cabinet Office).

M. C. SCHOLAR

7 April 1982

CONFIDENTIAL



CONFIDENTIAL

cc J.V.



Prime Minister

(2)

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

To note

MCS 8/4

PRIME MINISTER

STATE MONOPOLIES

with MCS

Robin Ibbs sent me a copy of his minute of 29 March about the work which the CPRS have in hand on how to reduce State Monopolies.

2. I welcome this study as one of the most important in the CPRS current work programme. The existence of monopoly power whether through market dominance or entrenched trade unionism in many of the largest nationalised industries is one of the main elements behind their continuing poor performance. There is a need to think hard and creatively about means of reducing monopoly and increasing competition, by privatisation where we can but by other means where we cannot. My officials will certainly want to give all the help they can in this work.

3. The CPRS study must be both comprehensive and thorough so that it can serve as a spring-board for more detailed consideration of particular industries and lead to a programme of action stretching well into the next Parliament. I am therefore glad that while the main focus will initially be on coal, water, electricity and telecommunications, the intention is also to look at gas, rail and ports which also have major elements of monopoly.

4. I am copying this minute to the other Members of E(NI) and to Sir Robert Armstrong.

(G.H.)

6 April 1982



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7 APR 1982

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CC [initials]  
Prime Minister (4)

Noted  
Policy

Treasury Chambers, Parliament Street, SW1P 3AG

MUS 7/4

01-233 3000 6 April 1982

The Rt Hon Nigel Lawson MP  
Secretary of State for Energy  
Department of Energy

*De Nigel*

NI DRAFT OBJECTIVES

I have seen your exchange of letters with Robin Ibbs on this subject, together with David Howell's letter of 23 March.

I think these exchanges have been helpful in clarifying the way in which we approach the objectives exercise. We all accept that objectives themselves cannot be expected to solve all the problems arising from the fundamental relationship between the Government and the industries. But I am sure that Robin Ibbs was right to emphasise that clear objectives understood by both Chairmen and Boards on the one hand, and Government on the other, should help to avoid some of the conflicts and misunderstanding which have arisen in the past.

But I do not pretend that the exercise will be an easy one. It may be that there are some special difficulties in your field because of the interaction between the various energy industries and because some fundamental questions about future policy for your industries are being considered. The stage of policy development in relation to a particular industry will clearly affect the way in which the objectives are drafted but I am sure we must press on and establish objectives which give clear signals to the industries of the direction in which we want their industries to go and within which they can frame their plans.

The Chairmen themselves attach considerable importance to this element in our proposals and without clear objectives our other ideas designed to improve our monitoring and assessment of the industries' plans and performance will be much less useful.

Copies of this letter go to the Prime Minister, E(NI) colleagues, Sir Robert Armstrong and Mr Sparrow.

GEOFFREY HOWE

APR 1982

APR 1982

7 APR 1982

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10 DOWNING STREET

(1)

Prime Minister

This answer to an arranged  
question is for tomorrow. It takes  
no account of your view that the  
Post Office and British shipbuilders  
EFL's must be too high given their  
recent pay offers.

Leon Brittan recognises this. But  
he is anxious to get the figures  
out, to get the NIS reduction on  
record, and would prefer to adjust  
them later for the pay (and other)  
adjustments. Content?

MCS 6/4

Question: To ask the Chancellor of the Exchequer, whether he will make a statement about revised External Financing Limits for the nationalised industries for 1982-83 following his announcement in the Budget speech that these would be reduced to take account of the cut in the National Insurance Surcharge.

Reply (for the Chief Secretary)

The revised external financing limits for the nationalised industries in 1982-83 are set out in the table below. The amendments include certain changes in addition to those consequent upon the National Insurance Surcharge reduction. These include reductions in the external financing limits for British Rail, as already announced by my rt hon Friend the Secretary of State for Transport on 4 March, to take account of an overrun in 1981-82 now expected to be £40 million following recent industrial action by ASLEF; for the National Coal Board to take account of delayed sales from 1981-82; and for the Scottish Electricity Boards following the closure of the Invergordon aluminium smelter. The adjustment for British Airways also reflects lower repayment requirements in respect of the special severance facility granted in 1981-82.

<u>Industry</u>	<u>1982-83 External Financing Limit</u> £ million
National Coal Board	962
Electricity (England and Wales)	-243
North of Scotland Hydro-Electric Board	9
South of Scotland Electricity Board	211
British Gas Corporation	-83
British National Oil Corporation	-85*
British Steel Corporation	350**
British Telecom	320
Post Office and Girobank	-38
British Airways Board	-8
British Airports Authority	47
British Railways Board	897
British Transport Docks Board	-7
British Waterways Board	39
National Bus Company	69
Scottish Transport Group	20
British Shipbuilders	123

\* The British National Oil Corporation figure is an external financing requirement, and does not represent a formal limit.

\*\* The £350 million figure published at the time of the Budget is

still provisional and subject to review in the light of final decisions on the industry's Corporate Plan. The effect of the NIS reduction should be to reduce the industry's external financing needs by £7 million. This will be taken into account when the final EFL is set.

I am also able to announce external financing limits for certain other public corporations not regarded as nationalised industries for public expenditure planning purposes. These are as follows:

<u>Public Corporation</u>	<u>1982-83 External Financing Limit (£ million)</u>
Water Authorities (England and Wales)	414.5
Urban Development Corporations	63.8
Civil Aviation Authority	30.9



SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ

01-211 6402

*WJU*  
Prime Minister (2)

*Mes 5/4*

Rt Hon Leon Brittan QC MP  
Chief Secretary  
HM Treasury  
Parliament Street  
London SW1

5 April 1982

*Leon Brittan*

*ms*

BGC CONSULTANCY STUDY

I have now secured BGC's agreement to a jointly-commissioned study of BGC's organisation and efficiency by management consultants. A copy of the draft terms of reference which I have provisionally agreed with British Gas is annexed to this letter; the precise terms of reference can only be finally settled in discussions involving the consultants themselves, when they have been selected. I believe that the draft terms of reference meet all the points raised by Robin Ibbs in his letter of 26 February, and by your officials.

I propose to announce the study by written answer on Wednesday, 7 April. I attach importance to an early announcement in order to stem any uninformed speculation, which could be counterproductive in terms of the Corporation's relationships with the Unions. The announcement, which I shall need to clear with the Corporation, would not set out the draft terms of reference, since, as I have said, these could be subject to revision later, but would describe in general terms the broad thrust of the study.

I am copying this letter to the Prime Minister, other members of E(NI), John Sparrow and Sir Robert Armstrong.

*Ym m*  
*Nigel*

NIGEL LAWSON



DRAFT TERMS OF REFERENCE

Taking account of the Corporation's statutory obligations, the objective of the study will be to :-

1. Investigate whether in carrying out its business the Corporation could, without detriment to a satisfactory standard of service, economically improve its efficiency so as to be able to reduce its costs or mitigate the effect of any increases in its costs with particular reference to :

- (i) its internal cost control and project control systems;
- (ii) its management control systems;
- (iii) its control of working capital.

2. Investigate whether the management, financial controls and methods of operating are :

- (i) most likely to provide the maximum opportunity for ensuring the optimum return from and use of the resources employed (in particular capital, manpower, land, energy); and
- (ii) sufficiently flexible and robust to cope with change.

3. To make recommendations as to where and how improvements should be made.

*AWZ*





**CABINET OFFICE**

*Central Policy Review Staff*

With the compliments of

J. R. Ibbs

70 Whitehall, London SW1A 2AS

Telephone 01-233 7765



✓ JV  
Prime Minister (2)

CABINET OFFICE  
Central Policy Review Staff

MUS 31/3

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: J. R. Ibbs

Qa 05876

CONFIDENTIAL

31 March 1982

*Dear Secretary of State,*

NI Draft Objectives

Your letter dated 16 March raises some very interesting arguments about objectives for nationalised industries. The Secretary of State for Transport's letter dated 23 March expresses some similar concerns.

You are of course right that because the industries are in the public sector, cannot go bankrupt and are expected to modify straight-forward commercial behaviour to take account of wider social or economic considerations, it is exceptionally difficult to control them and to judge how well they are performing. This certainly makes the Government's relations with them peculiarly difficult. But it does not follow that vagueness about objectives and a tradition of "muddling through at arm's length" in any way helps the relationship. I think it has been positively harmful. Repeated misunderstandings and unwillingness to face the difficulties have soured the relationship.

There is ample evidence over the last two years that conflict occurs when the Government sees clearly what it wants an industry to do but finds that the Chairman and Board are deeply committed to some course that is at least partly incompatible. And the better the quality of the Chairman the greater likelihood that he will be vigorously pursuing the course he sees as best if he has not been told clearly what is wanted of him.

It would, of course, be absurd to expect that objectives can be drawn up that will cover every eventuality. Furthermore, clear objectives cannot actually prevent all sorts of problems from arising; but they can ensure that a Board is pointed generally in the right direction when a problem occurs.

The Rt Hon Nigel Lawson MP  
Department of Energy  
THAMES HOUSE SOUTH  
S W 1

CONFIDENTIAL

I entirely agree that where it is possible to reduce the difficulties by privatising and breaking down monopolies this is the right way to go. But there are many instances where this cannot immediately be done. I can appreciate too, the tensions that can arise in deciding objectives in related industries; also that some aspects can only be resolved on very different timescales. I have never advocated unreasonable precision of objectives or that all industries should be treated alike. What seems to me important is that for each industry the main issues and their ramifications should be listed and examined systematically. Objectives can then be decided which cover all those aspects for which policy is defined and care can be taken not to block off avenues which future policy decisions may make attractive.

My purpose in my earlier letter was to indicate the sort of questions for your industries that need to be asked before deciding objectives. One cannot expect precise answers to them all but one can seek to set objectives in such a way that as policy unfolds a Board is already taking the industry along the right route and is not faced with unwelcome major surprises. This will not entirely eliminate conflict with central Government but I am sure it can reduce it.

As I see it the main stages that a Secretary of State and his sponsor Department have to go through in arriving at objectives for a major industry are broadly as follows:

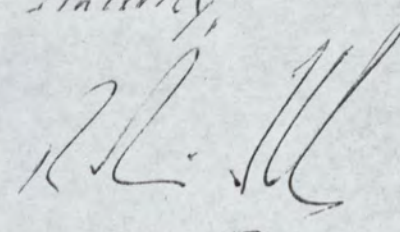
- (i) Ask all the relevant basic questions about policy for the industry, and define any over-riding external factors and any substantial inter-relationships with other industries.
- (ii) Set down clearly the answers to those questions on which policy is already defined.
- (iii) Explore the likely policy alternatives in those areas on which definition is still needed; where policy issues are still unresolved, decide a timescale for reaching decisions and consider what broad interim objectives can be included.

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- (iv) Draw together objectives which fit the outcome on items (ii) and (iii).
- (v) Discuss provisional objectives in E(NI).
- (vi) Decide the extent to which these objectives can be exposed to and discussed with the Chairman. (It would normally be a mistake to discuss the specific set of objectives with an industry before this.)
- (vii) Where full discussion of all objectives with the Chairman appears inadvisable, decide on any intermediate objectives or omissions that are needed. (The aim should be of course to expose all objectives to a Chairman as soon as circumstances permit.)
- (viii) Discuss and agree objectives with the Chairman; decide how the objectives should be put to the Board.
- (ix) Decide the precise form in which objectives should be published.

I hope the above will be helpful to you in looking again at your draft objectives. I assume that revised versions will be available for consideration by E(NI) in the course of the next month or two.

I am sending a copy of this letter to the Prime Minister, the other members of E(NI), and to Sir Robert Armstrong.

*Yours sincerely,*  


J R Ibbs



CONFIDENTIAL

2 JV

Prime Minister

2

You will wish to be aware. I will put in

The weekend box with any comment from

26 March 1982 the Policy Unit.

M/S 29/3

Qa 05864

To: MR SCHOLAR

From: J R IBBS

State Monopolies

1. As part of this year's work programme, the Prime Minister has asked the CPRS to consider how the power of the State Monopolies might be reduced. Before leaving the CPRS I should like to check that our work is proceeding on the right lines.

2. On the basis of some preliminary work and consultation, the attached programme outlines the further work envisaged. It includes reviewing how monopoly power has in practice been exploited, and how it could be curtailed through improved competition, privatisation, structural changes and regulatory pressure. It will also include further consideration of how union power, which is a central feature of the problem, might be constrained by any other means.

3. We propose to look in some detail initially at the impact such changes could have on four particular industries - coal and electricity, because these are key examples of the central problem; also water and telecommunications, are relevant for comparison, because the former has a different, less centralised, structure and in the latter the practical problems of privatisation, competition and regulation are already being intensively examined. The aim is not primarily to make detailed proposals relating to these specific industries, but to use them as the main test cases for a general analysis which should provide pointers for Ministerial decisions on a number of industries. For this purpose we shall need to go wider than these four industries and look also at the other large monopolies (gas, rail, posts), either less intensively in the first stage or in a second stage later in the year.

4. In considering specific industries we shall be very dependent on help from the Departments concerned and shall try not to add to their burden of work.



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5. We shall not confine our enquiries to the United Kingdom and plan to study in some detail how other countries (USA, West Germany, France) restrain the monopoly power of relevant industries.

6. If the Prime Minister is content with the study outline, and subject to comments from the other members of E(NI), the CPRS will aim to produce a report for consideration by Ministers after the Summer Recess.

*Amend  
ms*

7. I am sending a copy of this minute and the attachment to the Private Secretaries to members of E(NI), and to Sir Robert Armstrong.

*SR*

CONQUEROR

Att





UNITED KINGDOM

The Secretary of State for the Home Department  
has received information from the  
Director of Public Prosecutions that a person  
has been charged with the offence of

being concerned in the commission, attempted  
commission or commission of an offence  
under section 1(1) of the Theft Act 1968  
in connection with the theft of a motor car

and that the person concerned is a British citizen  
and is currently residing in the United Kingdom.

COMPLAINT



26 MAR 1982

# CONFIDENTIAL

## STATE MONOPOLIES

### Object of Study

The CPRS has been asked by the Prime Minister to consider what steps can be taken to reduce the power of State monopolies to pass on the costs of high wage increases, low productivity and loss-making operations, either through increased prices or direct Government support.

2. All the nationalised industries are backed by the Government's credit and cannot be allowed to go bankrupt. Several of these industries are monopoly suppliers and some are monopoly purchasers (monopsonies). As a result, management and employees can exploit a degree of monopoly power, as compared with competing firms in the private sector. The market position varies, however, for each industry and in some cases for different parts of the industry.

3. The purpose of the study will be to evaluate changes which might be made either now or at some time in the future, aimed at reducing the exploitation of monopoly power by the nationalised industries.

### Questions for Examination

4. In carrying out this study, the CPRS is looking first at the evidence on how in practice monopoly power has been exploited. The study will aim to identify the important factors - for example management attitudes, labour intensity, inflexibility of industry structure, effects of industrial action, long lead times for new investment, union tradition etc. International comparisons will be made to see whether experience in other countries is different, and why.

5. A major part of the study will be an examination of ways of reducing monopoly power by introducing more competition and greater exposure to financial and market forces, in particular:-

- (a) encouragement of alternative sources of supply in the short and longer term;
- (b) privatisation of ownership (in whole or in part), removing the Government's guarantee of non-bankruptibility;
- (c) introduction of private sector capital into new projects and ventures within an industry;
- (d) de-regulation to allow private suppliers to compete.

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6. Where direct competition cannot be introduced or increased, the study will seek to identify other changes which might help to reduce monopoly power, and in particular the power of the unions. These changes might include restructuring the industry into separate regional operations, and introducing local and regional pay or productivity agreements.

7. The study will also examine the role which might be played by regulatory authorities in fostering and facilitating privatisation and competition, the form such authorities might take, and their overall merits and demerits.

Industries to be Studied

8. The CPRS proposes to concentrate mainly on a few industries as examples for detailed study. These are:-

- (a) coal - not itself a natural monopoly, since it can be imported, and for the dominant use (electricity generation) there are close substitutes (oil and nuclear). In practice, at least in the short run, there is a large degree of monopoly power through electricity supply and the NUM have shown a readiness to use it;
- (b) electricity - in practice a monopoly, in the sense that for most consumers there is no possibility of a competing source of supply and for some uses there are no close substitutes;
- (c) water - a natural monopoly which has a different regionalised structure and is part privately owned and regulated;
- (d) telecommunications - steps are currently being taken by the Government to increase the degree of competition and to privatise the industry. This is likely to require some separate regulatory authority.

9. The areas for examination within each of the industries are commented on briefly in the Annex. The aim will not be to produce a blueprint for changes within each industry, but to examine these as test cases leading to conclusions on the general questions.

Method of Work

10. The CPRS has already done some work in this area and the next phase will be discussions with the Treasury and sponsor Departments, both on

**CONFIDENTIAL**

the general questions and the industries chosen for specific examination. Consultation on particular questions can then be extended more widely as appropriate. A key feature will be examination of international comparisons, particularly in the USA and Germany of the telecommunications and electricity industries and forms of regulation which might be appropriate for these industries in the UK.

Study Programme and Timing

11. The study will be conducted in two parts. The first part will cover researching the facts in discussion with Departments and industries in the UK. The second part will comprise an examination of international comparisons and formulation of conclusions and recommendations. This is expected to be completed by the end of July, for consideration by Ministers in the autumn.

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Coal

The NCB's annual output of coal is approximately 120 million tonnes which is disposed of as follows:-

	%
Power Stations	70
Coke Ovens	8
Other UK Markets	18
Exports	4
	<hr style="width: 100%; border: 0.5px solid black;"/>
	100
	<hr style="width: 100%; border: 0.5px solid black;"/>

2. The UK Electricity Supply Industry is heavily dependent upon the NCB since 75% of the electricity supply is generated by coal-fired power stations and 95% of the coal burnt is purchased from the NCB. The remaining 5% is imported. The National Union of Mineworkers has significant monopoly power for the following reasons:-

- (a) in the short term the CEGB has no real alternative to the NCB;
- (b) the NUM is a highly organised industrial union with a tradition of centralised wage negotiations;
- (c) prolonged industrial action by the NUM (together with support from the NUR) leads to shortage of coal at the power stations, despite some strategic stockholding. If generating capacity is reduced to 85% of electricity requirement, this has serious adverse implications for British industry.

3. NUM monopoly power has led to some adverse consequences for the industry and the coal market as a whole:-

- (a) the NCB has been constrained in closing inefficient and loss-making pits. In the past this has kept coal prices high and continues to result in deficits which need to be financed by Central Government.
- (b) productivity in British mines is low by international comparisons;
- (c) the NUM has been able to restrict imports of coal; this has led to a further concentration of monopoly power;
- (d) the NCB has surplus production which it can only dispose of by exporting at a substantial loss.

4. The study will examine how far competition can be introduced into the UK coal industry in one or more of the following ways:-

**CONFIDENTIAL**

- (a) introduction of private capital into new mining ventures - whether private sector companies could be involved in new deep mining and open-cast mining ventures, either on their own or in collaboration with the NCB;
  - (b) increasing imports of coal - whether more coal could be imported direct to power stations, and what limitations are posed by the availability of suitable ports and the proximity of coal-fired power stations to such ports;
  - (c) privatisation - whether some regions or parts of the NCB could be privatised, particularly open-cast coal mining which accounts for 12% of the NCB's output.
5. The study will also examine the feasibility and effects of:-
- (a) regionalising the NCB further so that individual regional organisations can negotiate terms and prices directly with the CEGB and compete with each other for new investment;
  - (b) decentralising wage negotiations, initially by improving local productivity schemes;
  - (c) reducing the flow of new capital for investment by the NCB, so that eventually output falls below UK demand and the CEGB has to find coal from other sources.
  - (d) reducing the dependence of the CEGB on the NCB by accelerating the programme of investment in nuclear power stations, coastal based coal-fired stations, dual firing power stations, further cross-Channel electricity links etc.
6. Other action to reduce the power of the NUM will also be considered such as:-
- (a) publicising further the facts about loss-making pits;
  - (b) increasing strategic stocks of coal at power stations.

Electricity

7. In England and Wales, the Electricity Supply Industry comprises the Central Electricity Generating Board which generates electricity and 12 Area Boards, which distribute and supply electricity to consumers as well as providing customer services. In Scotland there are two boards which both generate and supply electricity. For the reasons

given above the CEGB and the NCB are heavily inter-dependent. The Electricity Supply Industry has, with minor exceptions, a monopoly of generation and of distribution.

8. The study will consider how far competition can be introduced into the UK Electricity Supply Industry, in one or more of the following ways:-

- (a) the encouragement of private sector companies to build power stations for their own use or for the purpose of offering power for sale to other users;
- (b) further encouragement of Combined Heat and Power (CHP), possibly under a separate Board;
- (c) regionalisation of the CEGB, allowing the new area generating boards to negotiate the sale of electricity to the area distribution boards;
- (d) privatisation of either or both of:-
  - (i) area generating boards;
  - (ii) area distribution boards.

9. The study will examine the case for establishing a regulatory authority:-

- (a) to expose inefficiency and to make pricing and investment decisions more transparent and detached from Government;
- (b) post-privatisation to prevent abuse of monopoly power by approving price increases and stimulating investment where appropriate.

Experience in the USA and Germany will be relevant here, particularly the former where regulation has apparently led to lower electricity costs and lower prices, but also to low profits and lack of new investment.

10. The scope for decentralising wage bargaining and introducing local productivity deals will also be considered.

#### Water

11. The water industry was reorganised in 1973 in order to bring under common management the whole of the water cycle, comprising river control, land drainage, treatment of water, disposal of water and water collection and supply. As a result the former municipal undertakings and water

monopoly for many years, technological developments in the industry have opened up the possibility of competing networks. Efforts are also currently in hand to introduce competition in such areas as attachments and value-added services.

16. Because of the traditional monopoly position of BT, the unions who are well organised and centralised have been able to exercise monopoly power. This has led to:-

- (a) high pay settlements;
- (b) resistance to change, overmanning and out-of-date practices when compared to the rapid technological change in the industry;
- (c) low productivity.

These features have resulted in higher prices than are justified by reference to the economic gains from improved technology.

17. BT's monopoly position has also led to other inefficiencies such as:-

- (a) delays in investment in new technology, in particular computerised exchanges;
- (b) long delays in meeting customer demands;
- (c) excessive bureaucratic controls in the service of customers.

These features have also resulted in higher prices than are justifiable.

18. The study will examine the measures being introduced to encourage competition to BT and so promote efficiency and reduce monopoly power; these measures include:-

- (a) liberalising the supply of value-added networks and subscriber apparatus;
- (b) licensing an alternative network, Mercury.

It will also look at the other measures presently under consideration:-

- (c) permitting competitors to link up with the international network;
- (d) allowing capacity on circuits leased from BT to be resold;
- (e) considering the introduction of competition in areas outside traditional public communications, such as broadband cable.

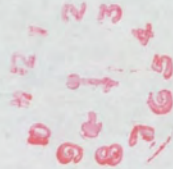
The study will consider any other measures which would facilitate increased competition to BT.



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19. The need for and form of regulation will also be considered, including the means of ensuring that BT does not abuse its dominant position in the industry to stifle competition, for example by retaining powers of licensing or by subsidising price-cutting. In considering this, the CPRS will keep abreast of studies presently being carried out on this subject in the Department of Industry.

26 MAR 1982



**CONFIDENTIAL**

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cf sv



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

(2)

Prime Minister

MCS 23/3

J R Ibbs Esq  
Central Policy Review Staff  
Cabinet Office  
70 Whitehall  
LONDON SW1

23 March 1982

ms

De Roni

I have seen Nigel Lawson's letter of 16 March to you about objectives for nationalised industries. I must say that I do strongly support his reservations about the practicability of precise objectives for these giant utilities. Because of their size and statutory duties they have become centres of political power fighting their own battles and inevitably in conflict from time to time with central government. Short of total denationalisation there is no escaping this.

Given this inherent problem of conflict it is very unwise to think in terms of over-precise objectives. It is the Government that stands in most danger of ending up being tied by them whereas of course in a running battle it is in fact in Government's interest to have as much room for manoeuvre and room to respond to circumstances as they change, which they always do, as possible.

All this should lead us to be very careful indeed before we set objectives for major nationalised industries in too rigid a mould.

I am copying this letter to the other members of E(NI) Committee and to Sir Robert Armstrong.

Yours  
David

DAVID HOWELL

CONFIDENTIAL

12 3 MAR 1964





Prime Minister (2)

cc. J.V.

2 MARSHAM STREET  
LONDON SW1P 3EB

ms 23/3

My ref:

Your ref:

22 March 1982

MS

Robin Ibbot

You may wish to note that my timetable for applying the CPRS recommendations on relationships with nationalised industries to the British Waterways Board is largely determined by the study currently under way by management consultants into the Board's affairs.

I expect to have the consultants' report by mid-April. It is bound to cover the issues raised in the CPRS report and, although we have already worked up an outline for draft objectives and a business plan, I shall not be putting any detailed proposals to the Board's chairman, Sir Frank Price, at this stage. However, as a first step Giles Shaw has asked him for his Board's own views on the CPRS recommendations.

I hope to have reached agreement with the Board on an outline plan and to be well on the way to settling performance indicators and efficiency review systems by the end of June.

I am copying this letter to members of E(NI), Sir Robert Armstrong and Robin Ibbot.

ms 23/3

MICHAEL HESELTINE

*Not final  
GC 5V*

*Nat Ind policy*



*Prime Minister (2)  
ms 22/3*

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EE  
01-212 3434

The Rt Hon John Biffen MP  
Secretary of State for Trade  
Department of Trade  
1 Victoria Street  
LONDON SW1

19 March 1982

*mt*

*Dear John*

*attached*

*attached* Thank you for sending me a copy of your letter of 26 February to Geoffrey Howe about the NICCs Review.

I agree that it would be helpful for you to meet the Chairmen of the industries covered by NICCs to discuss the Review, and I am sure that Sir Peter Parker would welcome the opportunity. My new Parliamentary Under Secretary of State with responsibility for the transport industries, Reginald Eyre, is familiar with the NICCs from his time in your Department and I suggest that he should attend.

*Yours in*

*David*

DAVID HOWELL



18 MAR 1982

CONFIDENTIAL



10 DOWNING STREET

*File 116  
National*

*From the Principal Private Secretary*

SIR ROBERT ARMSTRONG

NATIONALISED INDUSTRY BOARD APPOINTMENTS

The Prime Minister has considered your minute A07796 of 15 March 1982 about Nationalised Industry Board appointments. As she mentioned when she saw you and Sir Derek Rayner this afternoon on another matter, she is not disposed to authorise the circulation of the letter which was attached in draft to your minute. She has minuted that if we pursue the course of action proposed, we shall create a lot more paper work but virtually no improvement in the problem.

I am sending a copy of this minute to Mr. Buckley and Mr. Ibbs.

G. A. WHITMORE

18 March 1982

CONFIDENTIAL

*LB*

CONFIDENTIAL

MR. HOSKYNS

cc: Mr. Scholar  
Mr. Walters

FOLLOW UP TO THE CPRS REPORT: NATIONALISED INDUSTRIES OBJECTIVES

I have been copying to you much of the now rather considerable Ministerial correspondence about the definition of nationalised industries objectives, following the decision in E(NI) before Christmas that suggestions should be sent to Robin Ibbs. You will have seen that this is starting to uncover major policy questions which are going to be difficult to resolve, as well as some fundamental disagreement with the whole approach (as evidenced in, for instance, Mr. Lawson's contribution). But Mr. Jenkin has now made his announcement (in the Budget Debate on 15 March) of the Government's intention to hold discussions with the industries in the coming months with the aim of agreeing strategic objectives with each of them. I have therefore talked to the Cabinet Office and the CPRS about how all this is going to be handled.

The forum for discussion of all this will of course be E(NI), which was specifically established after the CPRS report for the purpose. The Prime Minister has made it clear that she will wish to remain in the chair. The CPRS have accepted responsibility for preparing the issues for E(NI), and they tell me that their plan is to take the objectives piecemeal rather than all at once. There is likely to be a first meeting in the week of 5 April, and the intention is to try and settle two sets of objectives at each meeting. The first two candidates are likely to be BSC and the Post Office, and Robin Ibbs may be invited to return specifically for those, so as to give John Sparrow the flavour of the CPRS approach. These may not raise particular difficulty: but when we come to the energy industries there are going to be all sorts of overlapping issues, many of them being addressed, as we know, elsewhere already. And there are some obvious candidates for leaving until much later: BR, because of the concurrent policy review; BT, because of the concurrent discussions in E; and possibly BL for obvious reasons.

/ It may be

CONFIDENTIAL



It may be possible to reduce the number of meetings by combining the discussion of objectives of some of the industries with the discussion of corporate plans.

I believe this approach is sensible. There is no chance at all of making progress in general discussion, nor in correspondence. Even the most superficial analysis of the drafts being circulated at the moment reveals the controversial nature of this exercise - there is, for instance, a very different approach to BT adopted by Mr. Jenkin from that suggested by the CPRS in their prototype annexed to their original report. And I shall want to argue strongly for the inclusion of objectives on pay (I have made this point separately in my draft letter for you to send to the Chancellor about the next pay round). We shall need to follow this carefully, because I think the CPRS will need all the support they can get. They are perhaps not as fully staffed up for this task as was envisaged when they wrote the report, since the Nationalised Industries Review Staff consists of existing staff (Jennifer Youde plus the individuals familiar with particular industries) and strengthened by a new accountant, John Stuttard. There will be continuing Whitehall resistance to objectives which look like causing any difficulty with the industries concerned (and objectives which do not are unlikely to meet their purpose) and when the time comes we will need to be ready to provide the Prime Minister with our own brief.

J. M. M. VEREKER

18 March 1982



10 DOWNING STREET

From the Private Secretary

16 March 1982

cc: E(NI) OSF  
 ch/Exp  
 OSE  
 SO  
 DOI  
 DOT  
 DOTraw  
 Chief Sec, HMT  
 (DEN) (+CO)  
 DM (CPRS)  
 bc: John Vercher

Dear Sir,

The Prime Minister has seen Robin Ibbs' letter to your Secretary of State of 12 March about the timing of his discussions with the Chairmen on objectives for the NCB and CEGB.

The Prime Minister agrees that there is a danger of difficulties and misunderstanding later on if objectives are not agreed before a new Chairman is appointed. She hopes, therefore, that as much progress as is possible can be made in defining these objectives before the new Chairmen are appointed. In particular, she shares Mr. Ibbs' view that it is important to seize the opportunity of agreeing objectives on coal before a new Chairman is appointed.

I am sending copies of this letter to the Private Secretaries to the members of E(NI), to David Wright (Cabinet Office) and Gerry Spence (CPRS).

Yours sincerely,

Michael Scholar

Julian West, Esq.,  
Department of Energy.

OSF

Not to policy



SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ  
01 211 6402

✓ JV (2)

Prime Minister

An attempt to placate Robin

Ibbs!

Mus 16/3

16 March 1982

J R Ibbs Esq  
Central Policy Review Staff  
Cabinet Office  
70 Whitehall  
LONDON SW1

P+S

P+S

In your letter of 22 January, you commented on the draft objectives which my Private Secretary sent to you on 23 December.

I have now had the benefit of some months' direct experience of the problems in the relationship between Government and NI's. I appreciate the importance of the issues involved in considering objectives for the industries. But I also believe that we attach undue significance to new definition of such objectives, and that the attempt at new definition risks prejudicing our ability to improve the situation.

There is a fundamental problem with the energy nationalised industries: their being in the public sector, with the implicit backing of public funds in the last resort, both blunts the financial disciplines applicable to private sector traders and arouses political and public expectations that their commercial behaviour should somehow be tempered to reflect their public status; their monopolistic power and conduct, coupled with their enormous impact on industry and commerce and on the public at large, aggravates the problem. Together these factors are the root cause of conflict between them and the Government.

The industries are neither truly part of the market place nor public servants: as a result they tend to be unresponsive to the market but resentful of the necessary political intervention. This confusion of roles, which affects all aspects of their conduct - pricing, efficiency, service, wage bargaining, purchasing policy etc - is inherent in their position and not simply of lack of direction, leadership or vision on the part of either the top management or Government.

Our measures to privatise and to break down monopoly privileges wherever possible are an assault on this fundamental problem. Where radical change is not feasible the conflict will inevitably remain. But in my view it cannot be solved simply by prescribing clear "objectives" on a wide range of issues. The question which no Government has yet resolved adequately, and which was not resolved by your report, is how far we really do wish these industries to act commercially and how far we expect them to act in pursuit of broader social or economic ends.



The difficulty of reconciling the commercially desirable ends for each industry with broader aims will affect the form of any objectives we might set. A few examples will illustrate this. On commercial grounds it would seem a proper objective of the NCB to capture the largest market possible on a profitable basis viable over the longer term. The electricity supply industry, on the other hand, do not want to be wholly dependent on the NCB for their supply of fuel. We are bound to take account of these conflicting commercial aims, together with national strategic considerations, when defining objectives for the NCB and the electricity supply industry. A similar tension may arise between our wish to see the electricity supply industry act as a straightforward commercial organisation and whatever aim we may have for the heavy electrical plant manufacturers in this country. There is also the problem we are to examine shortly in detail of the needs of large electricity users, in the context of their contribution to this country's industrial effort, with the commercial interests of the electricity supply industry. No objectives set two years ago could have forestalled the difficulties which have arisen more recently.

I do not seek to prejudge the answers to such questions in this letter. But I do not believe one can find a "solution" to such complex policy issues simply by translating them in every case into precise objectives. In many areas the existence of such objectives could inhibit the evolution of policy and limit the scope for tactical judgements in response to change,

As you say decisions are needed on many issues. But it is not feasible in my view to take decisions simultaneously on all issues irrespective of their nature. We have been grappling with some of these issues for some time: for instance the structure of the electricity industry. The answers to some questions will depend on prior decisions with their own separate timescales: for instance the nature of future power stations will be affected by the outcome of the Sizewell Inquiry. Some other issues by their nature require continually evolving policies: for instance, the pricing policy for domestic or industrial gas and, now, our new study of industrial electricity prices. Other issues will acquire importance in due time but do not need to be answered now; for instance the role of synthetic natural gas. We must also avoid confusing objectives with the detailed means of achieving them.

Such specific issues have to be examined on their merits at the right moment and should not be forced into a uniform timetable. Many can be resolved only in consultation with the industries on whom we rely for much of the relevant information. Experience shows that the chances of persuading the industries to accept and work to achieve our policy objectives are enhanced if the issues are treated individually, and are raised for decision at the right moment in the light of the political and economic context. Taking issues singly does not of course imply that wider considerations are not taken into account in each case.

Our method of approach must also take account of the particular problems and situations of the different energy industries. The NICG rightly, in my view, stressed the need to avoid over-simplification; they were opposed to any attempt to put all the nationalised industries into one pot according to one recipe. One example will illustrate this point. It seemed to me, reading your letter, that you underestimated the extent to which we are transforming the rationale of the British Gas Corporation. Not all of the objectives for the BGC in our letter of 23 December were bland and platitudinous. On the contrary,



they included a clear public commitment to examine further privatisation and to organise the industry in such a way as to reveal its sources of profit. It will be no easy task to get BGC's agreement to objectives such as these. But I believe these objectives are correct and that they should be published. What we may decide for the BGC in specific terms thereafter is a different matter. That will depend on the progress of our dialogue with the Corporation about the general direction of the objectives.

I shall of course be looking again at the draft objectives previously circulated for my industries to see whether they can be further refined. I shall, however, be doing so in the light of my general conclusion that the formulation of objectives will not remove the fundamental problems in the relationship between Government and the industries. These lie in the very nature of the nationalised industries - certainly those that are monopolies. This in turn means that we will continue to have to intervene on a wide range of specific issues as circumstances change; and for this reason our objectives will have to remain relatively few and cast in fairly generalised terms whose precise application will need frequent adjustment. To go further and attempt to elaborate an extensive list of detailed objectives would help neither the Government nor the NI's themselves. In particular, it could increase the industries' resistance to the frequent changes which we would subsequently be forced to seek and do nothing to ease the relationship.

My detailed comments on the specific points you raised on each industry, are set out in the Annex.

I have now also seen your further letter of 12 March. I agree with everything you say in its second and fourth paragraphs. As you already know, and as is clear from the Annex to this letter, I will certainly have the broad direction in which the NCB should be moving in mind in choosing its new Chairman and will also ensure that his acceptance of it is part of the terms and conditions on which he is appointed.

I am copying this letter to the other members of E(NI) Committee and to Sir Robert Armstrong.

NIGEL LAWSON



C O N F I D E N T I A L

ANNEX

COMMENTS ON SPECIFIC QUESTIONS RAISED IN 22 JANUARY LETTER

GENERAL APPROACH

1. The intention to agree strategic objectives is publicly known and Parliament at least will expect to be informed of what they are. The Chairman have also said that they wish formal strategic objectives to be published. Bearing in mind also the constant need to tailor policies to changing circumstances, the fundamental set of objectives will need to be cast in fairly general terms which we can continue to stand by in public.

2. I also need to secure action by the industries on many more sensitive questions including, in some cases, how the more formal and fundamental objectives are to be achieved in practice. Some of my aims on such questions will effectively be objectives in their own right, though they will have to be kept distinct from the fundamental group. Such questions cannot all be resolved at the same time but some of them may best be pursued through confidential policy guidance letters to the Chairman.

3. There may be some matters which are objectives of Government which it would be best not to disclose even to the industries.

SPECIFIC POINTS IN 22 JANUARY LETTER

National Coal Board

i. I agree that we should aim for the Coal Board to achieve a positive real return as soon as possible and I will be making clear to the new Chairman that I expect him to plan for its achievement (as you may have seen from the draft confidential policy letter to the Chairman which was sent to your officials

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in December). However, we must first concentrate on achieving break-even and this as an objective in public has the advantage of being precise and indisputably valid while avoiding being side-tracked by questions of what level of positive return we are seeking and why.

ii. You suggest that we refer in the objectives to accelerating pit closures. Pit closures are obviously essential, but they are one of the means to the more fundamental end of achieving lower unit costs and commercial viability. They are also an issue which needs careful handling and progress may be prejudiced if at this stage we seek to express a Government-originated closure programme.

iii. You suggest that the objective of reducing overall unit costs should be replaced by one of reducing average unit costs of pits which are to continue. This, too, risks confusing basic objectives with the route to achieving them. The NCB's fundamental aim should be to reduce its costs overall. How this is achieved in relation to individual pits is a question which arises more when one assesses NCB's plans and monitors their progress. We shall consider whether the objective should be to contain costs (which would improve on past medium-term trends) or whether some reduction in costs is possible - what matters is that the objective should be based on the best information and be realistic.

iv. You suggest deliberately aiming to produce less coal than UK demand. Deliberately to restrict NCB's production capacity would not seem a sensible formulation for a commercial objective from NCB's point of view - see cover letter. The aim should be an economically viable commercial industry, at whatever level of production that implies, not one constrained to an artificial level of supply.



C O N F I D E N T I A L

### Electricity

- i. We do need to decide the structure of the industry and are reviewing it, though the options and implications are wider than you suggest.
  
- ii. I agree that the right size of the planning margin is an important question. The planning margin is already being reviewed. When the results are available and it is clear what action the industry intends to take, we will then be able to consider whether any Government objective is necessary, over and above the obligation on the industry to strike a balance between security of supply and economy of operation.
  
- iii. Your question whether future stations should be only nuclear or coastal-based fossil-fuelled over simplifies the choices. There is a case for a strategic objective to diversify plant and increase flexibility of response, reducing the dependence on home-produced coal, but the means could be more diverse, eg including slurry pipelines, CHP. Specific questions related to individual power stations are not necessarily best answered by an all-embracing objective.
  
- iv. The question of whether or not we should withdraw the statutory bar against "discrimination and undue preference" will be considered in the long-term review of electricity pricing which we are to undertake. It does of course raise broader industrial policy questions.
  
- v. You ask whether the industry should try to retain two UK turbine manufacturers. It is a legitimate objective for the industry to support an indigenous power plant manufacturing capability, but the structure of the power plant industry is

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not in the first instance a matter for the electricity industry. The prime issue for electricity is whether or not its overall purchasing policy should be commercial. The CEGB has been praised by some for the fact that a high proportion of its purchases are British, but was criticised by the MMC for neglect of opportunities to reduce costs precisely because of that policy. There is clearly a continuing need to strike a balance, but the correct balance will not necessarily be a fixed point.

British Gas Corporation

- i. Questions about further privatisation, and the core structure of BGC, are being considered and will need to be developed in detail in discussion with the Chairman. Meanwhile, privatisation as such is in the draft objectives already circulated.
- ii. You ask what the profit centres should be. This is a question which needs detailed study in collaboration with the Corporation and comes into the area of how the fundamental objective expressed in the circulated draft is to be implemented. It is also, of course, one of the objects of the independent study which is to be undertaken by management consultants.
- iii. You ask what the policy should be towards BGC's role in synthetic natural gas. There are currently great uncertainties about when a significant market for syngas will develop in the UK and it would be premature to seek to decide what our objectives should be for BGC in relation to an unknown market. However, one of the effects of the Oil and Gas (Enterprise) Bill is to open this area to private-sector development. In the current state of our knowledge it is best to stay with this open approach and to see where the opportunities start to occur before attempting to decide these questions.

C O N F I D E N T I A L

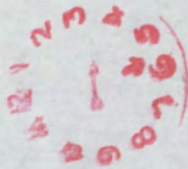


C O N F I D E N T I A L

iv. Domestic gas pricing policy is something to which we will have to give continuing consideration in the light of events over the coming months and, in particular, the need to fix a new financial target for BGC from the end of next financial year. The draft objectives envisage the need for Government guidelines, of which the precise details will have to be developed as Government policy evolves with changing circumstances.

C O N F I D E N T I A L

17 MAR 1982



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Private - We all rather carefully refrained from saying what we thought of the detail of these suggestions. If we pursue the course of action proposed below we shall

Ref. A07798

PRIME MINISTER

credit - a lot more paper work  
virtually no improvement in the matter  
To solve the latter - all we need are  
good Ministers - good permanent Secs.

- 1 Mr Sheldon - to see Mr Whitmore
- 2 Prime Minister

Content that we should write to the Offices of Ministers with nationalised industry responsibilities on the lines of the draft at A?

Nationalised Industry Board Appointments

When the E(NI) Sub-Committee discussed nationalised industry board

appointments on 10th February (E(NI)(82) 1st Meeting, Item 3), they thought that it would be undesirable to lay down arrangements as precise and standardised as those proposed in E(NI)(82) 4, but they agreed that it was desirable for sponsor Ministers to give early consideration to the succession arrangements for Chairmen and board members and that nationalised industry Chairmen should themselves each year consider the succession arrangements for members of their boards and senior managers. You undertook to consider how best Ministers might be reminded regularly of the need for sensible succession planning in the nationalised industries.

2. There are two issues - first how to ensure that each sponsor Minister and Chairman has adequate succession planning arrangements on a continuing basis and secondly how to ensure that Ministers and Departments apply their minds to the filling of appointments of Chairmen in good time.

3. So far as the first issue is concerned, I suggest that the right approach is to ask each sponsor Minister to report to you within three months or so - say, by the end of June - on the succession planning arrangements which have been established for his industries. This will enable account to be taken of the circumstances of particular industries, as E(NI) wished, but we shall have the opportunity to judge whether the arrangements are adequate.

4. So far as the second issue is concerned, the Public Appointments Unit in the Management and Personnel Office could without difficulty put itself in a position to remind Departments at official level of the need to decide on reappointing a Chairman or begin the process of finding a successor, and I suggest that the Unit should be given this responsibility. In addition, however, it would be useful to reinforce the pressures on sponsoring Ministers themselves to think about appointments of Chairmen in good time. I suggest that the best way

WR  
15/3

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of doing this would be for them to be asked to write to you indicating their preliminary thinking about the handling of such appointments at least nine months before the existing appointments expire.

5. If you agree with these suggestions your Private Secretary might write to the Private Secretaries of Ministers with nationalised industry responsibilities on the lines of the draft attached. The draft makes no reference to the long-stop reminder role envisaged for the Public Appointments Unit, since it seems best to emphasise the prime responsibility of sponsor Ministers themselves for dealing with these appointments in good time.

6. I am sending copies of this minute to the Chancellor of the Duchy of Lancaster and Mr. Ibbs.

RA

ROBERT ARMSTRONG

15th March, 1982

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DRAFT LETTER FROM PRIME MINISTER'S  
PRIVATE SECRETARY TO PRIVATE SECRETARIES  
OF MINISTERS WITH NATIONALISED INDUSTRY  
RESPONSIBILITIES

Nationalised Industry Board Appointments

The report by the Central Policy Review Staff on the relationship between Government and the nationalised industries drew attention to the importance of settling appointments and reappointments of Chairmen and board members of industries as expeditiously as possible, and carrying out succession planning well in advance. At their meeting on 10th February 1982 (E(NI)(82) 1st Meeting, Item 3) the Ministerial Sub-Committee on the Nationalised Industries agreed that sponsor Ministers ought to give early consideration to the succession arrangements for Chairmen and board members and also that the nationalised industry Chairmen should themselves each year consider the succession arrangements for members of their boards and senior managers. The Prime Minister undertook to consider how these proposals might best be implemented.

The existing requirements about appointments of nationalised industry Chairmen and board members are set out in Questions of Procedure for Ministers and, in more detail, in the Guide on Public Appointments Procedures. In order to ensure that forward planning takes place in good time, the Prime Minister has asked that in future the relevant sponsor Minister should write to her not later than nine months before the appointment of a nationalised

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industry Chairman expires, indicating his preliminary thinking about the handling of the appointment. It is recognised that the Minister is unlikely at that stage to have a firm proposal for approval, but he should be able to indicate his views on the likelihood of the incumbent's being reappointed, the needs of the job and hence the kind of candidate who might be sought, the means employed for finding suitable candidates, and any special considerations such as the need for payment by results. Copies of the letter should be sent to the Joint Head of the Civil Service (Sir Robert Armstrong) and others who, in accordance with the ~~existing~~ procedures, would receive a copy of a submission to the Prime Minister about the filling of such an appointment.

Notes on Questions of Procedure will be amended to this effect in due course.

The Prime Minister would also be grateful if each sponsor Minister could report to her by the <sup>end</sup>~~beginning~~ of June on the arrangements being made for succession planning for nationalised industry board appointments both within his Department and by the Chairmen of his industries.

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Secretary of State for Industry

*15/3*

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

*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

CONFIDENTIAL



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





With the Compliments of

**ROBIN IBBS**

**CENTRAL POLICY REVIEW  
STAFF**

Cabinet Office  
Whitehall London  
SW1A 2AS

Telephone or **233** 7765



CC JV

①

CABINET OFFICE  
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: J. R. Ibbs

Qa 05860

CONFIDENTIAL

Prime Minister

If the setting of objectives  
is to be taken seriously this  
is a powerful point.

Do you wish me to  
write in support? *Yes*  
12 March 1982 *ms*

MS 15/3

*Dear Secretary of State,*

Objectives for Nationalised Industries

I have seen your minute to the Prime Minister of 3 March, and note that you intend to launch discussions with Chairmen on objectives as soon as new men are in post at the NCB and CEGB and we have new legislation for gas.

In the case of NCB and CEGB, I am concerned that if objectives are not agreed before a new Chairman is appointed there is a danger of difficulties and misunderstanding later on, and in particular a danger that options that Ministers would have liked to consider will become blocked off. Unless Ministers have discussed objectives and are clear in their own minds about the broad direction in which they wish each industry to move, they cannot be certain of picking a Chairman who is the right man for the job and shares the same goals. Furthermore, a man who is open-minded on appointment can quickly be captured by his industry if he has not been told the objectives.

An important part of the problem with Nationalised Industries is that in addition to the need for normal business aims, their operation also has to take account of political considerations. I suggest that the first step in setting objectives should be for Ministers themselves to discuss draft objectives, commission any further work that needs to be done to clarify alternatives, and come to a view on what their own overall objectives for each industry are. The second step should be to decide how best to put them into effect. Often it should be possible

The Rt Hon Nigel Lawson MP  
Department of Energy

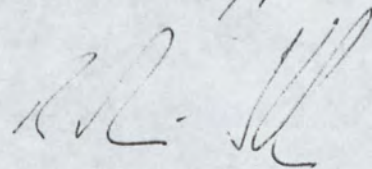
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to share them fully with a Chairman, but sometimes it may be necessary to settle on more limited immediate aims for agreement with him. Even when objectives are agreed with a Chairman it may not be feasible to publish them all.

For the industries generally, and not just those in energy, the time needed to produce draft objectives, which were first commissioned in early November, demonstrates the difficulty of the issues that arise, and is confirmation of the need for clarification of some of the main lines of policy. But for the energy industries in particular, I recognise that difficult policy questions arise. The structure of the electricity supply industry is among the more formidable of these. However, it is perhaps too late to define the objectives for this industry before the new Chairman is appointed; it will be all the more necessary to ensure that he keeps an open mind on such matters. On coal, Ministers have already given much thought to the issues and there should be a better chance of agreeing objectives before the new Chairman is appointed. It seems to me important that this opportunity should be seized.

I am sending copies of this letter to the Prime Minister, other members of E(NI), and to Sir Robert Armstrong.

*yours sincerely,*



J R Ibbs



NBPM

ms 13/3

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

12 March 1982

Richard Riley, Esq.,  
Private Secretary to the Secretary of State  
for Industry  
Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON SW1E 6RB

*Dear Richard*

NATIONALISED INDUSTRIES AND THE CPRS REPORT

Thank you for your letter of 9 March. The Chancellor has seen the statement attached to your letter including the amendments suggested by Mr. Ibbs. He is generally content with this version.

The Chancellor has considered the question raised by Mr. Lawson (in Julian West's letter of 10 March) but he does not think it would be right to drop the reference to strategic objectives in the statement. Despite the difficulties in particular cases the setting of longer-term objectives to the industries remains an important part of the Government's proposals. Moreover the Nationalised Industries' Chairmen's Group attach importance to this aspect and could reasonably expect any Government statement to reflect in a balanced way the document that has been agreed with them.

However the Chancellor accepts that we do not want to arouse undue expectations of progress in this area and he suggests that the wording of the statement should be amended to reflect this. Thus the first two sentences of the second paragraph might read as follows:-

"First, the Government intends to hold discussions with the industries in the coming months with the aim of agreeing strategic objectives for each of them. The intention is to provide a clear framework for their operations."

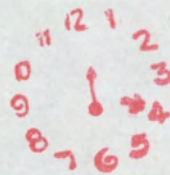
Subsequent Questions in Parliament and elsewhere could be answered on the basis that discussions were continuing and that for the time being they were confidential.

I am copying this letter to the recipients of yours.

*Yours ever*  
*P.S.*  
P.S. JENKINS



1 2 MAR 1982



CONFIDENTIAL

cc SV.



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Jonathan Spencer Esq  
Private Secretary to  
The Rt Hon Patrick Jenkin MP  
Secretary of State for Industry  
Department of Industry  
Ashdown House  
123 Victoria Street  
LONDON SW1

NBRM  
ms 12/3

11 March 1982

Dear Jonathan,

NATIONALISED INDUSTRIES AND THE CPRS REPORT

My Secretary of State has seen a copy of your letter of 9 March to Peter Jenkins, together with the draft of the statement which your Secretary of State is now to make, as I understand it, on Monday of next week.

My Secretary of State hopes that Mr Jenkin will be prepared to modify somewhat the reference to the role of non-Executive Directors at the end of the third paragraph. My Secretary of State believes that it will cause quite unnecessary aggravation with the nationalised industries if it is suggested that the whole question of efficiency is a matter which is somehow to be the separate responsibility of the non-Executive Directors, and that this is not a matter to which the full-time Executives pay proper attention. He would much prefer it if Mr Jenkin could say that the number of non-Executive Directors was to be increased, because they would bring in a wider experience, which would help to secure an improvement in the overall efficiency of the businesses.

I am sending copies of this to those who received copies of your letter.

Yours,

Anthony Mayer

R A J MAYER  
Private Secretary

CONFIDENTIAL

National  
Policy

AW  
JV

Prime Minister (2)

01 211 6402

Mus 193

CONFIDENTIAL

Jonathan Spencer Esq  
Private Secretary to the  
Secretary of State for Industry  
Ashdown House  
123 Victoria Street  
LONDON SW1

10 March 1982

Dear Jonathan,

NATIONALISED INDUSTRIES AND THE CPRS REPORT

attached

We spoke last night about Richard Riley's letter of yesterday to Peter Jenkins. I understand that there is now more time for comment than Richard anticipated.

I have shown the text attached to Richard's letter to my Secretary of State who would prefer to see the second paragraph deleted. His conclusion from the meeting of E(NI) on Monday, which discussed the follow-up to the CPRS report, is that much work remains to be done on objectives even before consultations can begin with the industries. It will be longer still before objectives are agreed in each case. Mr Lawson therefore considers that an announcement now of the Government's intentions will serve only to stimulate Parliamentary and public questioning to which we will be unable to give satisfactory answers for an uncomfortably long time.

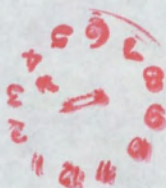
Mr Lawson suggests that the Government should avoid putting itself unnecessarily on the defensive in this way, and that a premature announcement is likely to prejudice any benefits from the eventual agreement of strategic objectives with the industries.

I am copying this letter to the recipients of Richard's.

Yours ever,

J D WEST  
Private Secretary

to whom?



14 Q MAR 1952

*[Faint, illegible handwritten text]*



With the Compliments of

**ROBIN IBBS**

**CENTRAL POLICY REVIEW  
STAFF**

Cabinet Office  
Whitehall London  
SW1A 2AS

Telephone or **233** 8589



ce JH

Prime Minister

(2)

CABINET OFFICE

Central Policy Review Staff

MUS 12/3

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: J. R. Ibbs

CONFIDENTIAL

Qa 05856

10 March 1982

*Dear Secretary of State*

Northern Ireland Electricity Service

*will request of neg.*

I have seen your letter of 23 February 1982, in which you argue for a comprehensive and authoritative efficiency audit of NIES as soon as possible, for which you feel MMC would be better suited than a firm of private management consultants such as Maynard and Barry. I have also seen the correspondence that followed your letter, and I understand that, although a reference could not be included in 1982, NIES will be considered for the 1983 MMC programme.

It was of course at your suggestion that CPRS and Treasury officials made contact with Maynard and Barry last year. We were impressed by their presentation and are of the opinion that there would be considerable merit in trying out this kind of approach to efficiency audits to compliment the MMC.

The proposed efficiency studies of the two Scottish Electricity Boards were good candidates for the type of approach advocated by Maynard and Barry. I understand, however, that three management consultancy firms have been invited to tender for each of the two Scottish Boards studies, but Maynard and Barry were not among them. These studies will not therefore provide an opportunity of seeing what Maynard and Barry can do and how useful their experience of efficiency auditing of electricity utilities in the US might be.

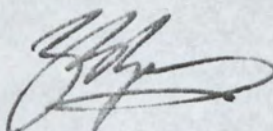
The Rt Hon James Prior MP  
Northern Ireland Office  
Gt George Street  
SW1

CONFIDENTIAL

If, because an early reference of NIES to the MMC has not proved possible, you reconsider the idea of a management consultancy study, I think there would be a good case for including Maynard and Barry among the firms you invite to tender for the study.

I am sending copies of this letter to the Prime Minister, other members of E(NI) and Sir Robert Armstrong.

*Yours sincerely*



PP. J R Ibbs

*(Approved by Mr. Ibbs but  
signed in his absence).*

CONFIDENTIAL

lc AW  
JV

Secretary of State for Industry

 DEPARTMENT OF INDUSTRY  
 ASHDOWN HOUSE  
 123 VICTORIA STREET  
 LONDON SW1E 6RB

 TELEPHONE DIRECT LINE 01-212 3301  
 SWITCHBOARD 01-212 7676
NRPM  
ms 9/3

9 March 1982

 Peter Jenkins Esq  
 Private Secretary to the  
 Chancellor of the Exchequer  
 Treasury Chambers  
 Parliament Street  
 LONDON  
 SW1P 3AG

Dear Peter

## NATIONALISED INDUSTRIES AND THE CPRS REPORT

As you know, the Prime Minister has agreed that my Secretary of State should make an announcement in his speech during the Budget Debate about the changes Ministers have agreed in Government's dealings with the nationalised industries arising out of the CPRS Report.

2 My Secretary of State was grateful for the draft passage which the Chancellor sent to him under cover of his letter of the 5 March (that letter was copied to the Prime Minister and to Mr Ibbs). Mr Jenkin has now approved the attached text which includes amendments suggested by Mr Ibbs in his letter of 8 March.

3 We do not, as yet, know when my Secretary of State will speak. Since it could be as early as tomorrow, I should be grateful for any comments you may have as quickly as possible. You may also care to consider whether the NICG should be warned of the proposed announcement.

4 I am copying this letter to Michael Scholar (No 10), the Private Secretaries to other members of E(NI), Nick Huxtable (Lord President's Office), Keith Long (PMG's Office) and to Robin Ibbs and David Wright.

Yours ever

Richard

 RICHARD RILEY  
 Private Secretary

CONFIDENTIAL



My Rt Hon Friend the Chancellor referred in his speech to changes that the Government is making in its dealings with the nationalised industries. We aim to put the relationship with the industries onto a more satisfactory basis. The changes that I shall outline take full account of the industries' statutory responsibilities and of their need to operate as commercial enterprises. They aim to ensure that the industries, which are not subject to the financial disciplines of the private sector and in many cases are not exposed to market forces, nevertheless, operate as efficiently as possible; we must see that the interests of consumers are fully protected and the burden on the taxpayer is minimised. In deciding on these changes the Government has been helped by the consideration given by the Central Policy Review Staff to these matters.

First, the Government intends to agree, after full consultation with the industries, strategic objectives for each of them, designed to provide a clear framework for their operations. Such objectives, which would mainly be qualitative, would be consistent with the industries' statutory duties, and with their financial targets and performance aims.

Second, the Government is putting more emphasis on the need for efficiency. An increased programme of references to the Monopolies and Mergers Commission has already been announced. The Government also wishes to ensure that the Boards of the industries are structured so as to put maximum emphasis on efficiency from within the industries. Ministers will therefore be discussing with the Chairmen the composition of their Boards with the aim of reducing their size where appropriate and ensuring an adequate proportion of non-Executive Directors who would take a particular interest in the efficiency of the business.

Third, the Government is taking steps to strengthen the business expertise in Whitehall for dealing with the nationalised industries. As a step towards better understanding, new arrangements are being introduced so that the nationalised industries' performance and plans can be more systematically assessed.

These changes have been discussed with the Nationalised Industries' Chairmen's Group. The Chairmen support the objectives underlying these changes and have made a number of constructive comments. I and other Ministers involved will be discussing the detailed implementation of these changes with the individual industries for which we are responsible. We will keep under review the progress made. These changes should we believe benefit both the Government's relationship with the industries and the industries' functioning and efficiency.

Not of  
Policy



Prime Minister (2) ~~PC SV~~

ms 9/3

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon George Younger TD MP  
Secretary of State  
Scottish Office  
Dover House  
Whitehall  
London SW1A 2AU

8 March 1982

George

OBJECTIVES FOR THE SCOTTISH ELECTRICITY BOARDS

Thank you for your letter of 26 February with which you put forward draft objectives for the Scottish Electricity Boards. You say that you want to be in a position to set at least some objectives before the new Chairman for the SSEB is appointed at the beginning of April.

The draft objectives proposed are written in very general terms and they raise many of the difficulties which Robin Ibbs identified in his letter of 22 January to Nigel Lawson about objectives for his industries. I can well understand why they have had to be written in these terms. As Robin Ibbs commented, the objectives should be clear statements of what Ministers require from each industry and this will entail some fundamental thinking about the direction in which we wish each industry to develop. This thinking has still to be largely carried out and it is doubtful whether it is worth agreeing objectives, which in some cases are not much more than a restatement of statutory objectives, before it has.

You will have seen from Nigel Lawson's minute of 3 March to the Prime Minister that he does not envisage early progress on objectives for the CEGB and that they are unlikely to be completed before that Board's new Chairman is appointed. This is a pity, but I accept that it would be a mistake to agree objectives which had not been properly prepared. I am therefore forced to the conclusion that we ought not to try objectives before the new Chairman is appointed at the end of this month.

Could I therefore suggest that further thought should be given to the Scottish Boards' objectives so that we can be certain that they are right? It may prove in the end that

the objectives which you propose are the best that can be agreed. But before coming to this conclusion we ought, as Robin Ibbs suggested in his letter of 22 January, do some fundamental thinking about the direction in which we wish the two Scottish Boards to develop. This will, of course, need to take into account Department of Energy thinking about the English industry, and vice versa.

Even though we are not yet in a position to set formal objectives, we would be missing an opportunity if we let the appointment of the new Chairman slip without giving him an indication of some of the important subjects which the Government thinks he should give his attention to in the early period of his chairmanship. I would like to suggest three matters which he ought to be asked to consider. They are:

i) Excess Capacity: I know that the Boards have already given some consideration to the measures for dealing with the over 70 per cent excess plant capacity on the Scottish electricity system. There are certainly difficult judgements here: which is better - to scrap plant now or to mothball it with the prospect of bringing it on service later on when demand recovers? Is it worth keeping expensive oil-fired plant on the system for the sort of eventuality to which you refer in the fourth paragraph of your letter?

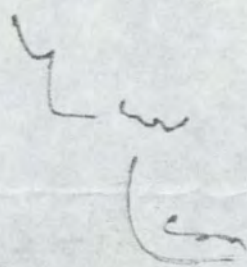
Even though the Board has considered these questions I think that it would be reasonable to expect the new Chairman to call for a new examination of a subject which is fundamental to his Board's operation. This is not to suggest that there should be a requirement in the Board's objectives, when they are agreed, to reduce excess capacity. That is something that has still to be decided. All I suggest is that the Chairman should be asked to give this subject his special attention and to let you know the outcome. This would be no more than an elaboration of your Department's normal contacts with the Board which you suggest is the way for dealing with this matter.

ii) Control of Costs: you might stress to the Chairman the great importance which the Government attaches to efficiency in the nationalised industries. This will no doubt not be news to him, but his appointment provides us with a useful opportunity to intensify pressure on the industry for increased efficiency. I therefore suggest that you should ask him to let you have a note of his plans for cutting the industry's costs. He might reply that his report should await the outcome of the current management consultants' study into the efficiency of the industry. This would be reasonable, though any action which could be taken before their report was ready obviously should be taken.

iii) Privatisation: you say in your letter that we are not yet in a position to include in the objectives an explanation of how we would wish our general policies of privatisation and the introduction of private capital to be applied in the case of the Scottish Boards. I agree; further thinking needs to be carried out here first. But this ought not to prevent us from asking the new Chairman to consider the possibility of introducing greater competition and private capital into his industry's operation. He may respond unhelpfully. But it surely is worth warning the new Chairman that we are actively contemplating such ideas and would like his views.

I do not think this approach should cause difficulties with the new Chairman and I think it would be well worth putting these points to him on his appointment.

I am sending a copy of this letter to Members of E(NI), to Sir Robert Armstrong and Mr Ibbs.



LEON BRITTAN

-9 MAR 1982

11 12 1 2 3  
4 5  
6 7 8 9





ABPM

**CABINET OFFICE**  
*Central Policy Review Staff*

With the compliments of  
J. R. Ibbs

70 Whitehall, London SW1A 2AS  
Telephone 01-233 7765



*Not Qd*

*✓ cc Au*

CABINET OFFICE  
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: J. R. Ibbs

Qa 05855

CONFIDENTIAL

8 March 1982

*Dear Secretary of State,*

Nationalised Industries and the CPRS Report

The Chancellor sent me a copy of his letter to you of 5 March suggesting a passage for your speech in the Budget Debate. I welcome the idea of making a statement on these lines, and was consulted by the Treasury on an earlier version.

You will be considering the wording, and there are just two significant changes which I still think should be made -

(i) The phrase 'in the service of the consumer', in its context towards the end of the first paragraph, seems to imply that this is the sole reason for the Government's concern with efficiency. Of course this is not so, however important the consumer interest may be - and I suggest the phrase needs to be balanced by adding: 'and to minimise the burden on the taxpayer'.

(ii) The reference to 'an adequate proportion of non-executive Directors' invites the question 'adequate for what?'. The document for NICG makes it clear, following the CPRS Report, that Ministers envisage the job of non-executive Directors as being particularly concerned with the pursuit of efficiency. I suggest this should be reflected by adding at the end of the sentence: 'who would take a particular interest in the efficiency of the business'.

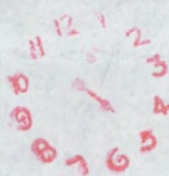
I am sending copies of this letter to the Prime Minister and the Chancellor.

*yours sincerely,*

J R Ibbs



- 8 MAR 1962



RECEIVED



Prime Minister

(2)

cc. AW.  
New Inc

MUS 5/3

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

5 March 1982

The Rt. Hon. Patrick Jenkin, MP  
Secretary of State for Industry

Mr Patrick

NATIONALISED INDUSTRIES AND THE CPRS REPORT

We had a word recently about the desirability of making some public announcement about the changes we have agreed in our dealings with the nationalised industries arising out of the CPRS report. You indicated that you were willing to include an appropriate passage in your speech during the Budget Debate. As you know, I have spoken to the Prime Minister and she has agreed that this would be the best way forward.

..... I am enclosing with this letter a passage for inclusion in your speech which summarises the main changes which we have agreed and illustrates the way in which they might be presented. I should be grateful if you would confirm quickly that you are content with this general approach. I daresay you will wish to modify the language. I should be grateful for the opportunity to check the final text. If it turns out to fit the context, I shall try, in my own speech, to include a brief trailer for your own remarks.

I am copying this letter to the Prime Minister and to Robin Ibbs.

GEOFFREY HOWE

DRAFT PASSAGE FOR SECRETARY OF STATE FOR INDUSTRY'S SPEECH IN  
THE BUDGET DEBATE

My rt hon Friend the Chancellor referred in his speech to changes that the Government is making in its dealings with the nationalised industries. Our aim in making these changes is to put the relationship with the industries on to a more satisfactory basis. The changes that I shall outline take full account of the industries' statutory responsibilities and of their need to operate as commercial enterprises. But at the same time they are intended to ensure that the industries, which are sheltered from market forces by Government backing and in some cases by limited competitive pressures, operate as efficiently as possible in the service of the consumer. In deciding on these changes the Government has been helped by the consideration given by the Central Policy Review Staff to these matters.

2. First, the Government intends to agree, after full consultation with the industries, strategic objectives for each of them, designed to provide a clear framework for their operations. Such objectives, which would mainly be qualitative, would be consistent with the industries' statutory duties, and with financial targets and performance aims. Second, the Government is putting increased emphasis on the need for efficiency. An increased programme of references to the Monopolies & Mergers Commission has already been announced. In addition, the Government wishes to ensure that the Boards of the industries are structured so as to put maximum emphasis on efficiency from within the industries themselves. Ministers will therefore be discussing with the Chairmen the composition of their Boards with the aim of reducing their size where possible and ensuring an adequate proportion of non-Executive Directors. Third,

the Government is taking steps to strengthen the business expertise in Whitehall for dealing with the nationalised industries. As a step towards better understanding, new arrangements are being introduced so that the industries' performance and plans can be more systematically assessed.

3. These changes have been discussed with the Nationalised Industries' Chairmen's Group. The Chairmen support the objectives underlying these changes and have made a number of constructive comments. I and the other Ministers concerned will be discussing the detailed implementation with individual industries. The Government will keep under review the progress made in implementing the changes, which we believe will benefit both the Government's relationship with the industries and the industries' functioning and efficiency more generally.

FBI MAR 1982

APR 1 1982  
FBI

P.0670

PRIME MINISTERFollow-up to the CPRS Report

E(NI)(82)8

## BACKGROUND

The CPRS note asks the Sub Committee to endorse the need for further urgent work to implement the proposals in their report on the relationship between Government and Nationalised Industries.

2. The CPRS have three proposals.

- (a) Sponsor Ministers should undertake the discussions with nationalised industries to which E(NI) agreed last year.
- (b) Sponsor Ministers should very quickly circulate draft objectives for their industries for early discussion by the Sub Committee.
- (c) Sponsor Ministers should report by July on their consultations with the industries.

3. Your Private Secretary's letter of 3 February asked that sponsor Ministers should circulate draft objectives by the end of February, (itself a relaxation from the earlier deadline of 31 December). To date draft objectives of the appropriate nature have been circulated only for the National Bus Company and the Scottish Electricity Boards.

Others are  
now  
coming in

post-haste - eg.

British Airways

British Airways

Authority

MUS 3/3

4. I understand that the Secretary of State for Energy takes the view that the timetable which the CPRS propose is unrealistic, and that he may be writing to that effect. If he takes that line at the meeting Mr Ibbs may accept that there are genuine difficulties in some cases, for example electricity, gas and railways, where it is genuinely difficult to set objectives until other policy questions have been settled; but to argue that Ministers should nonetheless bring them out into the open. The CPRS fear that some sponsor Departments are dragging their feet.



## HANDLING

5. You will want to keep the discussion on this item as brief as possible, so that there is enough time to discuss the next item (Harland and Wolff). It may therefore be sufficient for you to draw attention yourself to the proposals in E(NI)(82)8, to stress the importance of keeping up the momentum and to invite the Sub Committee to endorse the proposed timetable. If there is any major disagreement it would be better to ask the Minister concerned to set out his views in writing and defer a discussion until the next E(NI) meeting.

## CONCLUSIONS

6. You will want to reach conclusions on the following points:

(i) that those Ministers who have not yet done so should circulate draft objectives very quickly (perhaps by the middle of March), or explain why they cannot do so by then and what they propose instead;

(ii) that Ministers should begin discussions with nationalised industry chairmen (using as a basis the note circulated on 18 February by the Chancellor of the Exchequer's Private Secretary) and report by July on progress.

*PLG*  
P L GREGSON

3 March 1982

CONFIDENTIAL

cAD



Prime Minister

(2)

PRIME MINISTER

MS

For Monday's E(NI)  
meeting.

MS 4/3

As I unfortunately cannot be present at E(NI) on 4 March, I am writing to let you know that I agree with Robin Ibbs's proposals (in E(NI)(82)8) that sponsor Ministers should now open bilateral discussions with their nationalised industries and report progress in July.

For the three energy industries I shall be opening this process with our proposals to improve the monitoring arrangements and reviews of Corporate Plans and I shall make clear to Chairmen that I am looking for early action in this area. In addition, I shall be pursuing further with Sir Denis Rooke the way I envisage re-shaping BGC's Board under his Chairmanship, along with the role I see for non-executive directors. Discussions on these Board questions in Coal and Electricity will also be an appropriate part of my talks with the Chairmen-designate of NCB and CEGB a little later once we have the right new men for these key jobs.

As my Private Secretary explained on 23 December when circulating our first draft of possible objectives for my industries, I also hope to launch discussions with Chairmen on objectives as soon as the new men are in post at NCB and CEGB and when we have the new gas legislation to use against BGC's opposition to our radical plans for reducing its monopoly. In the meantime, Robin Ibbs has raised various points on our drafts in his letter of 22 January and I shall be writing shortly with my comments on them. But while we shall thus be doing much valuable preparatory work, it would not be realistic, for the reasons I have explained, to aim at early progress on objectives with

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the industries in the energy sector.

I therefore hope that I shall have progress to report in July, but given the special position of my three industries I must warn that it would be unrealistic to expect a short and uniform timetable for complete implementation of all the CPRS proposals.

I am copying this minute to all members of E(NI) and to Robin Ibbs and Sir Robert Armstrong.

*Janet Chadwick*

PP SECRETARY OF STATE FOR ENERGY  
3 March 1982

(Approved by the Secretary of State and signed in his absence)

CONFIDENTIAL

✓ AD  
JV  
(2)

Prime Minister

PRIME MINISTER

*mf*

The CPRS will be pulling all these draft objectives together.

MS 2/3

NATIONALISED INDUSTRIES OBJECTIVES

At a meeting on 2 November E(NI) Committee invited sponsor Ministers to submit draft objectives to the Committee for each of their industries.

For two of my industries - NFCL and BTDB - our clear objective and one shared fully by the industries concerned has been to transfer them to the private sector. The sale of NFCL to the management consortium has now been completed and I have every hope and expectation that BTDB will have left the public sector by the end of this year. Given the timetable for this transfer I do not think there is anything to be gained from setting further objectives now.

Objectives for British Rail will be a major part of the Review of Railway Finances and it would be wrong at this stage to anticipate, even in general terms what conclusions the Chairman of the Review may reach and what view we might then take.

This leaves the National Bus Company, for which I attach draft objectives along the lines suggested in the annex to the CPRS report.

I am copying this minute to the other members of E(NI), to Mr Ibbs and to Sir Robert Armstrong.

*mf*

DAVID HOWELL  
1 March 1982

CONFIDENTIAL

OBJECTIVES FOR THE NATIONAL BUS COMPANY

1. It shall be the objective of the Company, acting within the financial and statutory framework and having regard to the needs of the business for the longer term:

a. subject to the target referred to at (b) below to provide as substantial as possible a network of stage carriage services to meet the demand expressed by:

- i. the willingness of passengers to pay; and
- ii. the willingness of the relevant local authorities to make subsidies available for the support of bus services in their area to the extent to which they cannot be financed from passenger revenue; and for the support of concessionary fare schemes;

b. in providing such services to achieve an overall financial performance that meets the medium term financial target set from time to time by the Secretary of State, in accordance with the time-scale and path of development that has been agreed and within the external finance and borrowing limits that have been approved at the relevant time; and to fix prices accordingly;

c. in non-stage trading activities to earn a commercial return on investment as defined in any financial targets set for those activities by the Secretary of State and to reflect the performance of those activities in separate accounts;

d. to continue to improve efficiency by reducing unit costs and by providing a pattern of services and facilities which makes the most effective use of resources, in particular by meeting any specific targets including performance aims agreed with the Secretary of State;

e. to have regard to the guidelines set by Government for the planning and appraisal of investment and the criteria to be applied to it, and in procurement policies to aim to keep whole life vehicle costs to the minimum;

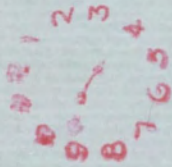
CONFIDENTIAL

f. to introduce private capital into their coaching, holiday and express operations; and to review their investment in BM(H);

g. whilst competing with other operators on normal commercial terms, to avoid unreasonable competitive behaviour such as uneconomic pricing of particular services or unreasonable denial to other operators of access to facilities serving the public as a whole.

CONFIDENTIAL

F2 MAR 1982





NBPM

MS

*Act 9/12/82*

*CC AD  
JV*

SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ

01-211 6402

Rt Hon John Biffen MP  
Secretary of State for Trade  
Department of Trade  
1 Victoria Street  
London  
SW1H 0ET

1 March 1982

*Dear Secretary of State*

COMPETITION ACT 1980: PUBLIC SECTOR REFERENCES TO THE MMC

Thank you for your letter of 24 February, with draft arranged question and answer.

So far as the NCB and BGC are concerned, I am content with what you suggest.

As regards electricity, I should like, subject to Nick Edwards' agreement, to substitute the South Wales Board (SWALEB) for the LEB, so that we can keep the agreement we reached in E(NI) that two Area Electricity Boards should be referred to the MMC under Section II this year.

YEB is a larger Board in terms of turnover, and SWALEB a small one, and both serve a number of significant industrial customers. In combination they represent a useful representative sample of the electricity distribution and sales industry.

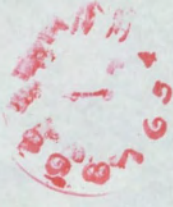
I am copying this letter to the recipients of yours, and to Nicholas Edwards.

*Yours sincerely*

*David Hulley*

*H* NIGEL LAWSON  
(Approved by the Secretary of State  
and signed in his absence)

2001 MAR 13





Prime Minister (2)

cc BI  
MAP  
JV  
AD

MW 2/3

From the Secretary of State

MW

The Rt Hon Nigel Lawson MP  
Secretary of State for Energy  
Department of Energy  
Thames House South  
Millbank  
London SW1P 4QJ

/ March 1982

MW

Dear Nigel,

COMPETITION ACT 1980: PUBLIC SECTOR REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION

Further to my letter to you of 24 February, I understand that you are prepared to defer for the moment the idea of referring the London Electricity Board to the MMC and that both you and Nicholas Edwards are happy to see the South Wales Board referred instead. I am content to go along with this and enclose a revised announcement which I intend to make on Wednesday March 3rd.

I have now seen Jim Prior's letter of 23 February to Leon Brittan about the Northern Ireland Electricity Service and Leon's letter to me on the same subject of the 26th. I am of course very happy to consider a reference of NIES in 1983. However, if two area boards are to be referred this year (a decision taken by E(NI)) I fear we shall almost certainly be unable to refer NIES until next year.

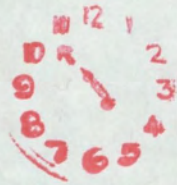
I am copying this letter and enclosure to the members of E(NI), to Jim Prior, John Nott and to Sir Robert Armstrong.

John Biffen

JOHN BIFFEN



-2 MAR 1982





cc BJ MAP  
MAP JV  
JV AD

Q To ask the Secretary of State for Trade, what further references he intends to make to the Monopolies and Mergers Commission under section 11 of the Competition Act 1980.

A My rt hon friend, the Financial Secretary to the Treasury, announced to the House on 30 November last that the Government intended to strengthen the role of the Monopolies and Mergers Commission in scrutinising the efficiency of nationalised industries and other public sector undertakings. The number of investigations was to be increased, with each year's programme being announced in advance.

The references to be made this year are:

National Coal Board

the sewerage functions of Anglian and North West Water Authorities

Caledonian MacBrayne (part of the Scottish Transport Group)

Yorkshire Electricity Board

the Civil Aviation Authority

South Wales Electricity Board

I have referred the NCB and the two water authorities today.

Like the earlier very useful studies of nationalised industries' efficiency conducted by the Commission, the investigation of the National Coal Board will cover major aspects of the Board's efficiency and costs, including for example internal cost control, purchasing policies and the appraisal and control of investment projects.

The investigation of the two water authorities will cover their efficiency in carrying out their responsibilities for sewerage. Sewerage is usually carried out on behalf of water authorities through local district councils, under arrangements provided for in the Water Act 1973. The inquiry will



include the question of the efficiency of these arrangements.

The scope of the other inquiries to be launched in 1982 will be announced when the references are made.

ck JV



From the Secretary of State

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
London, SW1P 3AR

26 February 1982

Dear Geoffrey,

CONSUMER REPRESENTATION IN THE NATIONALISED INDUSTRIES

As you know, Sally Oppenheim/<sup>pp 5</sup> successfully launched the NICC consultative document in December. The demand for it has been encouraging and comments have started to arrive.

As part of the consultative process I believe it would be helpful if I were to meet the Chairmen of the nationalised industries concerned. One objective would be to allay any fears they might have this is an industry-bashing exercise. But more important, though doubtless we shall get written views by the 15 March closing date, we ought to profit from hearing the Chairmen themselves across the table on the effectiveness of the NICCs and what changes we might seek; and from discussing ways in which improved working relationships between the industries and the NICCs can be brought about.

I imagine that such a meeting would be best arranged through the Nationalised Industries Chairmen's Group. Given the subject matter, I would propose that I took the meeting rather than impose on you. Some sponsoring Departments might also wish to be represented at Ministerial level.



*From the Secretary of State*

I should be grateful for your reactions both to the idea of a meeting and the way it should be handled.

I am copying this letter to recipients of earlier correspondence on the NICC Review.

*Yours*

*John Biffen*

JOHN BIFFEN



Prime Minister

(2) CC JV AD

MUS 1/3

CABINET OFFICE

Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: J. R. Ibbs

CONFIDENTIAL

Qa 05847

26 February 1982

Dear Secretary of State,

Consultancy Study of British Gas

I have read your minute of 19 February to the Prime Minister and Michael Scholar's reply that the Prime Minister agrees to pressing ahead with a consultancy study, but that if British Gas are unwilling, they should be included as early as possible in the programme of MMC references for 1983.

Paragraph two of your minute referred to an external report on BGC's "organisation and structure" and your recommendations referred to a study of BGC's "organisation and operations". An MMC reference would normally concentrate on areas where efficiency could be improved and operating costs reduced. Such an efficiency study would include consideration of the organisation, structure and operations.

I believe it is important that the terms of reference for consultants should state without ambiguity the precise nature of the study. Any uncertainty both reduces the chance of getting valuable recommendations and increases the risk of misunderstanding with BGC. I suggest that the terms of reference should refer specifically to efficiency and also make it clear that organisation, structure and operations are all to be included in the study.

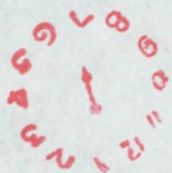
I am sending a copy of this letter to the Prime Minister, members of E(NI) and to Sir Robert Armstrong.

Yours sincerely,

The Rt Hon Nigel Lawson MP  
Department of Energy  
Thames House South  
SW1

J R Ibbs

CONFIDENTIAL



FEB 1982

2



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
LONDON SW1

26 February 1982

Dear Chancellor,

#### OBJECTIVES FOR THE SCOTTISH ELECTRICITY BOARDS

I indicated in a separate letter today about the Scottish Transport Group that I would put forward draft objectives for the Scottish Electricity Boards. These are now attached. They are drawn up largely as a common list because the Boards plan their generation activities jointly and any objectives which have a bearing on generation planning therefore need to be common to the two Boards.

I have naturally taken into account the draft objectives proposed by Nigel Lawson for the electricity supply industry (ESI) and the comments which you and Robin Ibbs made on them. The circumstances of the Scottish Boards are different in some respects; the structure of the industry in Scotland is not a live issue and no major new power stations are likely to be started within the next five years at least. I have not therefore attempted to follow closely the proposals for the ESI. There are a number of issues which I have decided against including in the draft, and I discuss these briefly below. I think it would be necessary, if reference were to be made to some of these matters, for them to be referred to in the ESI objectives as well.

Ideally the objectives should explain how we wish our general policies of privatisation and the introduction of private capital to be applied in the case of the Boards. I do not think we are yet in a position to do this; it is not easy to see ways in which a greater degree of competition can be introduced into the Boards' operations and we have not collectively reached any views on how the monopoly energy industries should be treated. One approach would be to require the chairmen to consider the question and put proposals to us, but I doubt whether that would be very fruitful until we have a clearer idea of how we wish the Boards to develop.

Another possibility would be to require the Boards to dispose of their retailing and contracting operations, but we should I think consider this option in more detail before we tackle the Boards on it. The introduction of private capital raise the same issues for the Boards as it does for the ESI, and any moves that I make will have to be in step with Nigel Lawson if they are to have any prospect of acceptance by the Boards.



One of the major problems facing the Scottish Boards is their excess of generating capacity, and there is a case for including in their objectives a requirement to deal with this. The Boards are well aware of our concern about it, and Alex Fletcher discussed it with SSEB when he met the full Board in January. But difficult judgements are involved in decisions to close power stations before the end of their useful life, and there are circumstances in which we could find apparently surplus capacity extremely valuable. I would therefore prefer to deal with this issue through our normal contacts with the Boards rather than by setting an explicit and specific objective.

As the construction of Torness proceeds I shall want SSEB to continue to play an important part in explaining and defending our nuclear power policies in Scotland, and I see good arguments for including the promotion of nuclear power and the nuclear construction industry in its objectives. I could not do so unless Nigel Lawson were setting a similar objective for the ESI, but I suggest that this possibility should be explored further.

As you will have seen I hope to appoint a new Chairman for SSEB to take effect at the beginning of April, and I shall have to be in a position to set at least some objectives for the Scottish Boards before then.

I am copying this letter to members of E(NI) to Sir Robert Armstrong and Mr Ibbs.

Yours sincerely

J.S. Wilson

Approved by the Secretary of State  
and signed in his absence

DRAFT OBJECTIVES FOR SCOTTISH ELECTRICITY BOARDS

1. The Boards' primary objective is:

In accordance with their statutory obligations, to supply electricity to meet the requirements of consumers in Scotland as efficiently and economically as possible, subject to ensuring the maintenance of a satisfactory standard of service and to earning an adequate return as defined by the financial target to be set by the Secretary of State, on the resources employed.

2. In pursuing this primary objective, the Boards should endeavour:-

(a) to operate generally within the financial regime agreed with the Secretary of State and the Treasury, and to contain their external financing requirements within limits set annually by the Secretary of State.

(b) to use existing assets in the most efficient and economic way, and meet any performance aims agreed with the Secretary of State to this end.

(c) to carry out efficiently a programme of investment agreed from time to time with the Secretary of State, which is directed at meeting consumers' requirements in the most economic way, is justified by reference to techniques of appraisal agreed with the Scottish Economic Planning Department and the Treasury and yields the required rate of return determined by the Government.

(d) to encourage the conservation of energy and the development of renewable sources of electricity

(e) to take account of the scope for economic interchange of power with CEGB and other power station operators

(f) to operate procurement policies consistent with these objectives along guidelines agreed with the Secretary of State with due regard to the long-term interests of UK suppliers, and in particular their international competitiveness.

(g) to take due account of environmental considerations in the planning and operation of the supply system.

3. South of Scotland Electricity Board

To commission Torness on time and within budget

4. North of Scotland Hydro-Electric Board

To take all practicable steps to reduce the costs of generation in the diesel areas.



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26 FEB 1982



Handwritten: *JV AD*

SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

Handwritten: *NBPM ref.*

26. February 1982

Dear Chancellor,

#### OBJECTIVES FOR THE SCOTTISH TRANSPORT GROUP

As you know, the CPRS study last year on relations between Government and the nationalised industries excluded consideration of the smaller industries, including all of mine. I nevertheless welcome the study and acknowledge the need for, among other things, greater clarity and understanding as to what we expect of the nationalised industries, clearer understanding on our part of what they are doing, and a firmer basis on which to discuss their performance with them.

I therefore attach draft objectives for the Scottish Transport Group (STG). I am writing separately about the two Electricity Boards.

In drawing up these objectives for STG I am conscious of the discussion that has taken place on Nigel Lawson's proposals. STG is a small group in good financial health, and in a competitive market in many places. In other ways, especially in the commercial orientation of its Chairman and Chief Executive, and in its number of non-executive directors from various backgrounds it is well in line with current views on how nationalised industries ought to be run. Therefore, the tasks I expect of the Group are clear and simple enough, and the greatest room for radical thinking lies in the way they go about providing their services. For me, the most useful purpose of these objectives will be as a check list and agenda for periodic discussions with the Group. For that reason I think it entirely appropriate to include, at the cost of repetition, such matters as financial and performance targets, which the Group know and live up to. I have also included objectives designed to reinforce the Group's commitment in a number of areas to which I attach importance myself.

I have not yet discussed these objectives with STG, but propose that this should happen forthwith. In the nature of things we will need to feel our way with this exercise and I envisage that these objectives may be refined (and may of course have to be completely changed) as time goes on. But this is a useful first stage.

I am copying this letter to members of E(NI), to Sir Robert  
Armstrong and to Mr Ibbs.

Yours sincerely

J.S. Wilson

Approved by the Secretary of State  
and signed in his absence.

SCOTTISH BUS GROUP

- (i) To provide road passenger transport services in and to and from Scotland.
- (ii) To liaise fully with the local authorities over the provision and standards of bus services within their areas and to keep these matters under review.
- (iii) To use existing assets in the most efficient and economical way and to achieve the performance aims determined by the Secretary of State from time to time.
- (iv) To carry out a programme of investment justified by reference to techniques of appraisal agreed with the Department and yielding the required rate of return.
- (v) To take effective action to achieve coordination in the overall provision of surface passenger transport through consultation with the NBC, the Strathclyde PTE and the British Rail Board.
- (vi) To have due regard to the needs of rural areas for essential bus services, in so far as is consistent with financial objectives and with local authority willingness to pay subsidy.
- (vii) To keep in touch with developing thinking on new ways of providing passenger transport services by road, particularly in rural areas.
- (viii) To operate procurement policies having maximum regard to the interests of UK suppliers.

And in all this

- (ix) To carry out fully the Company's statutory duties.
- (x) To meet the Government's financial targets and to contain their external financing requirements within the limits set annually by the Secretary of State.

CALEDONIAN MACBRAYNE

- (i) To provide efficient shipping transport services to the Western Isles and on the Clyde estuary having particular regard to the needs of the local communities served.
- (ii) To keep under review their ferry networks timetables and routes so as to ensure the best matching of services and local needs.
- (iii) To consult local interests fully in the pursuit of (ii).
- (iv) To use existing assets in the most economical way and to achieve such performance aims as the Government may determine from time to time.
- (v) To make proposals from time to time for new shipping investment, justified by reference to techniques of appraisal agreed with the Department and yielding the required rate of return, and taking into account technical innovation, likely changes in patterns of need over the lifetime of the proposed investment, and also of the need for optimal flexibility in the future use of ships.
- (vi) To have particular regard in the provision of its services to providing the maximum benefit to island economies, particularly by encouraging indigenous economic activity and job creation.
- (vii) To operate procurement policies having maximum regard to the interests of UK suppliers.

And in all of this

- (viii) To carry out fully the Company's statutory duties.
- (ix) To meet the Government's financial target and to contain external financing requirements within the limits set by the Secretary of State.



126 FEB 1982



North  
Policy

CONFIDENTIAL



244  
← 22 AD  
JV  
NRBPM  
MM

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon John Biffen MP  
Secretary of State  
Department of Trade  
1 Victoria Street  
London SW1H 0ET

26 February 1982

Dear Secretary of State,

COMPETITION ACT 1980: PUBLIC SECTOR REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION

You copied to me your letter to Nigel Lawson enclosing a draft arranged Question and Answer setting out the 1982 MMC programme for nationalised industries.

I had no comments on the terms of the draft announcement. However, we clearly want the programme set out in the announcement to be and to look as substantial as possible. Since there are difficulties about referring the LEB in 1982, we should surely take up the offer in Jim Prior's letter to me of 23 February to include the Northern Ireland Electricity Service in the 1982 programme. The LEB could still be referred in early 1983 if the Section 5 reference did not materialise.

A much less attractive alternative would be to include both the Yorkshire and London Boards in the 1982 announcement but to have reached a clear understanding with the LEB and OFT that the LEB reference would only take place in practice if the Director General decided not to refer them to the MMC under Section 5. However, since we have an agreed alternative candidate available in the form of the NIES I see no reason why it should not be included in LEB's place.

I am copying this letter to the other members of E(NI) and Sir Robert Armstrong.

Yours sincerely

LEON BRITTAN

LP (approved by the Chief Secretary & signed in his absence)

CONFIDENTIAL

151 MAR 1982





cc B.I.  
Teresa  
(For state folder)

*Nat Bond*

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

*na*

*MAD*

*24/2*

Mike Pattison Esq  
Private Secretary to  
the Prime Minister  
10 Downing Street  
LONDON  
SW1

25 February 1982

*Dear Mike*

BRITISH TRANSPORT DOCKS BOARD (BTDB): EFL OVERSHOOT

We spoke earlier today about the announcement of the Board's overshoot.

My Secretary of State wrote to the Chief Secretary on 19 February about this seeking his agreement to the terms of the announcement. The Chief Secretary replied on 24 February conveying his consent. We were planning to make the announcement in reply to a PQ from Robert Adley yesterday, but in the event this did not take place. We now propose to make the announcement in response to an inspired Written PQ next Monday afternoon after 3.30 p.m. I attach a copy of the answer as agreed by the Chief Secretary which incorporates the amendment mentioned in the reply of 24 February.

I am copying this to the Private Secretaries to the members of E(NI) and to David Wright. A copy also goes to Nick Huxtable in the Lord President's Office together with a copy of my Secretary of State's letter of 19 February and the Chief Secretary's reply of 24 February.

*Yours ever*  
*C R Edwards*

C R EDWARDS  
Private Secretary

DRAFT ARRANGED PQ AND REPLY

To ask the Secretary of State for Transport, whether he expects the British Transport Docks Board to meet its 1981-82 external financing limit.

The British Transport Docks Board's external financing limit (EFL) for 1981-82 was set at £-5m; that implies that the Board should reduce its net borrowings by £5m, as well as financing all its capital expenditure from internal resources. When the EFL was set in November 1980, it was hoped that the Board would benefit from a substantial recovery in the volume of trade; but in the event this has not occurred. The Board's finances in 1981-82 have also been severely affected by the series of industrial disputes at Southampton which occurred between March 1981 and January this year. In response, the Board have made strenuous efforts to reduce their operating costs, and they have succeeded in reducing their total workforce by 11½% during 1981. This has involved high extraordinary costs in 1981-82 in the form of severance payments to the employees made redundant. The overall result is that the Board do not now expect to meet their EFL for 1981-82; and their requirement for external finance may be over £10m.

Any excess over the Board's existing EFL will be met from the unallocated margin of the Contingency Reserve.



From the Secretary of State

CONFIDENTIAL

The Rt Hon Nigel Lawson MP  
 Secretary of State for Energy  
 Department of Energy  
 Thames House South  
 Millbank  
 London, SW1P 4QJ

February 1982

Dear Nigel,

COMPETITION ACT 1980: PUBLIC SECTOR REFERENCES TO THE  
 MONOPOLIES AND MERGERS COMMISSION

Please refer to your minute of 19 February to the Prime Minister.

If the BGC Board are reluctant to agree to a study of their efficiency by management consultants, I would be happy to see a reference to the Commission early in 1983. However, I am very anxious that the 1982 S 11 reference programme should be announced this week and that the NCB and water references should be made at the same time. I agree therefore that we should leave the question of any announcement on what is to be done about BGC until later.

... I enclose a draft arranged Question and Answer for Thursday 25 February. This is based on the E(NI) decision that there should be five references this year, including two area electricity boards. I agree about the Yorkshire Board, but your proposal that the Commission should look also at the London Electricity Board (LEB) in 1982 raises problems, and I have therefore not included it in the announcement. As you know, the Director General of Fair Trading is currently conducting a preliminary investigation into alleged anti-competitive practices by the Board. When his report is available he will then have to decide whether to refer any anti-competitive practices established to the Commission under Section 5

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*From the Secretary of State*

CONFIDENTIAL

of the Competition Act 1980. The timing of any reference is tightly constrained by the Act as the Director General would not be able to postpone making a Section 5 reference until an efficiency enquiry had been completed later this year.

I think it would be unwise to refer the LEB to the Commission twice in the course of a few months. It would smack of vindictiveness and impose a considerable burden on the management, which might make them generally less co-operative with the Commission. I therefore propose that my announcement next week should omit any mention of the LEB. If, however, the Director General decided against making a S 5 reference, we could re-instate a Section 11 enquiry. In practice, for operational reasons, the Commission would almost certainly have to look at the YEB and LEB consecutively rather than concurrently.

I shall be most grateful for any comments on the draft announcement by close of play on Wednesday 24 February.

I am copying this letter and enclosure to the Members of E(NI) and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'John Biffen', with a large, stylized initial 'J' at the start.

JOHN BIFFEN

CONFIDENTIAL



RESTRICTED

DRAFT

Q To ask the Secretary of State for Trade, what further references he intends to make to the Monopolies and Mergers Commission under section 11 of the Competition Act 1980.

A My rt hon friend, the Financial Secretary to the Treasury, announced to the House on 30 November last that the Government intended to strengthen the role of the Monopolies and Mergers Commission in scrutinising the efficiency of nationalised industries and other public sector undertakings. The number of investigations was to be increased, with each year's programme being announced in advanced.

The bodies to be investigated this year are :

National Coal Board

Anglian and North West Water Authorities (sewerage)

Caledonian MacBrayne (part of the Scottish Transport Group)

Yorkshire Electricity Board

the Civil Aviation Authority.

I have referred the NCB and the two water authorities today.

---

Like the earlier very useful studies of nationalised industries' efficiency conducted by the Commission, the investigation of the National Coal Board will cover the major aspects of the Board's efficiency and costs, including for example internal cost control, purchasing policies and the appraisal and control of investment projects.

The investigation of the two water authorities will cover their efficiency in carrying out their responsibilities for sewerage.



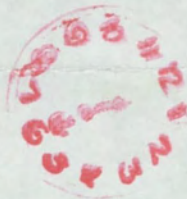
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- 2 -

Sewerage is usually carried out on behalf of water authorities through local district councils, under arrangements provided for in the Water Act 1973. The inquiry will include the question of the efficiency of these arrangements.

The scope of the other inquiries to be launched in 1982 will be announced when the references are made.





24 FEB 1982

cc BT  
MAP



Prime Minister (2) ✓ AD  
JV

A sorry story.

MUS 25/2

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP  
Secretary of State  
Department of Transport  
2 Marsham Street  
London SW1P 3EB

24 February 1982

Dear Secretary of State

BRITISH TRANSPORT DOCKS BOARD (BTDB) : EFL OVERSHOOT

You wrote to me on 19 February with details of an announcement you propose to make about the prospect of the Board breaching its 1981-82 EFL, probably by more than £13 million. I understand that you would like to make your statement in reply to a Question which coincidentally has been put down by Robert Adley for answer today.

I am prepared to accept that the Board's case is exceptional because of the particular constraints imposed by the ports industry, of which they are part, but above all because of the need to have particular regard to more than the short term problem with their current EFL in view of the importance of securing a successful flotation in June. For these reasons I am prepared to agree that we should acknowledge the prospect of an overshoot of this year's EFL and that at this stage we should not pursue the possibility of penalising the Board by seeking an equivalent adjustment to next year's EFL as we should normally seek to do. I also agree that it would be preferable to make the announcement as soon as possible even though the continuing uncertainty of their trading position precludes a revised EFL being set. While this is something you will need to satisfy yourself of. I imagine that the Board's desire to ensure that the sale of shares is a success should be incentive enough for them to make every effort to minimise the extent of the overshoot.

I would be content with the announcement you propose subject to the addition of the following sentence at the end:

"Any excess over the Board's existing EFL will be met from the unallocated margin of the Contingency Reserve."

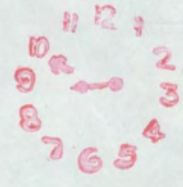
I am copying this letter to members of E(NI) and to Sir Robert Armstrong.

yours sincerely

PP LEON BRITTAN

(approved by the Chief Secretary and signed in his absence)

2 5 FEB 1982





MEJ

Not Incl.

10 DOWNING STREET

From the Private Secretary

22 February 1982

Dear Julian,

The Prime Minister was grateful for your Secretary of State's minute of 19 February about the proposed consultancy study of British Gas.

Subject to the views of colleagues, the Prime Minister agrees that we should exclude British Gas from the announcement of the 1982 MMC references; that your Secretary of State should press ahead with securing British Gas' agreement to a joint appointment of consultants to carry out an early study of BGC's organisation and operations when the Oil and Gas (Enterprise) Bill becomes law. She agrees, too, that if British Gas do not agree to the consultancy study they should be included as early as possible in the programme of MMC references for 1983.

I am sending a copy of this letter to the Private Secretaries to the other members of E(NI) and to David Wright (Cabinet Office).

Yours sincerely,

Michael Schmidt

Julian West Esq  
Department of Energy

JK



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

AD  
SV

The Rt Hon Leon Brittan QC, MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON SW1

cc PS/K Cl  
PS/ Secretary  
N Lazarus  
N Sanderson  
N Holmes  
A. P. Brown  
19 February 1982 - with pp

Dear Leon

BRITISH TRANSPORT DOCKS BOARD: EFL OVERSHOOT

I am writing to let you have my proposals for dealing with the overshoot of the 1981-82 EFL now projected by the British Transport Docks Board (BTDB).

BTDB's latest forecast, which is £5.3m worse than their forecast at the end of the last quarter, is that they will require £8m of external finance in 1981-82, an overshoot of £13m over their EFL of £-5m. This assumes, however, that BSC pay before 31 March the sums outstanding in respect of the Port Talbot contract, which now amount to over £5½m (only £3.1m of which relates to 1981-82). It seems unlikely that BSC will pay before the end of the year, and the overshoot is therefore likely to be £18.5m.

There have been two main factors responsible for this deterioration. The long-running series of industrial disputes at Southampton, which it is hoped have now finally been settled, have led to that port making a net loss (after interest) in the first 47 weeks of 1981 of £10m, compared to a profit of £1.4m over the equivalent period in 1980. BTDB are now fighting hard, with some success, to recover the traffic lost during the disputes. The other factor has been the severance payments to

labour other than registered dock workers, which are now estimated to cost £5.2m (as against £2.7m in last quarter's forecast). It is only through these severances, and the national voluntary severance scheme for registered dock workers, that BTDB have been able to secure the manpower reductions that are essential for their future prosperity. The Board have in fact achieved a reduction in 1981 of 11.5% of their total workforce, and a reduction of 17% in the number of registered dock workers.

These reductions are impressive, particularly bearing in mind the constraints on shedding labour in the ports industry, and I am confident that the Board are doing all in their power to reduce their operating costs, in order to bring them into line with the currently very depressed levels of traffic. This action has involved high extraordinary costs in 1981-82, but it was essential if BTDB were to restore their financial performance in 1982, and thus pave the way for an early flotation. That is the overriding objective of both the Board and ourselves, and it is in the light of this that we should now consider what action to take.

There is clearly no prospect of the Board meeting their EFL. Nor do I consider that it would be appropriate to revise it at this stage, not least because there is continuing uncertainty arising from the continuing withholding of payments by BSC, and from the effects of the ASLEF strikes on the railways. I am sure that the Board are controlling their business very firmly. They are motivated both by their desire to avoid an increase in their temporary borrowing ceiling (which is requiring them to control their cash flow very tightly) and, more importantly, by their desire to achieve the maximum possible improvement in profitability in order to secure a very early flotation.

The question is therefore whether it would be appropriate to announce now that an EFL overshoot is in prospect. On balance, and given that we hope to float in June, I think it would be best to indicate now the likely level of overshoot, and the reasons for it, thus ensuring that the announcement I would have to make after the end of the financial year does not come as a surprise to the City close to the date of flotation. I attach a draft Parliamentary answer which I would propose to make next week.

*Yours ever*

*David*

DAVID HOWELL

DRAFT ARRANGED PQ AND REPLY

To ask the Secretary of State for Transport, whether he expects the British Transport Docks Board to meet its 1981-82 external financing limit.

The British Transport Docks Board's external financing limit (EFL) for 1981-82 was set at £5m; that implies that the Board should reduce its net borrowings by £5m, as well as financing all its capital expenditure from internal resources. When the EFL was set in November 1980, it was hoped that the Board would benefit from a substantial recovery in the volume of trade; but in the event this has not occurred. The Board's finances in 1981-82 have also been severely affected by the series of industrial disputes at Southampton which occurred between March 1981 and January this year. In response, the Board have made strenuous efforts to reduce their operating costs, and they have succeeded in reducing their total workforce by 11½% during 1981. This has involved high extraordinary costs in 1981-82 in the form of severance payments to the employees made redundant. The overall result is that the Board do not now expect to meet their EFL for 1981-82; and their requirement for external finance may be over £10m.



Prime Minister

Agree to

a), b), and c) below?

MUS 14/2

JV  
AD ①

Yes  
mk

PRIME MINISTER

At E(NI) on 12 February we agreed to an early consultancy study of British Gas which would be announced at the same time as the MMC references for 1982.

As the Chief Secretary's paper - E(NI)(82)1 - makes clear, if this is to be a worthwhile exercise I need to secure BGC's agreement to a jointly-commissioned study (for which I also intend that they should pay). I shall shortly be seeing Sir Denis Rooke to this end. At that time I shall make it clear that we are determined to have an external report on BGC's organisation and structure and that we will refer this to the MMC if they do not agree to a joint appointment of consultants.

If they refuse we could then include them in the programme of references for 1982. But this means that we would not be in a position to announce the programme until BGC have responded. On the other hand I am anxious to press ahead with an early announcement of the NCB reference. This points to excluding BGC from the 1982 MMC references.

I would therefore like your and colleagues' agreement that:

- (a) we exclude BGC from the announcement of the 1982 MMC references; ✓
- (b) I press ahead with securing BGC's agreement to a joint appointment of consultants to carry out an early study of BGC's organisation and operations when the Oil and Gas (Enterprise) Bill becomes law; ✓  
and
- (c) if they do not agree to the consultancy study, they should be included as early as possible in the programme of MMC references for 1983. ✓

I am copying this to members of E(NI) and to Sir Robert Armstrong.

NR

Secretary of State for Energy

19 February 1982

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

18 February 1982

J. Spencer, Esq.,  
Private Secretary,  
Department of Industry

*Dear Jonathan*

RELATIONSHIP BETWEEN GOVERNMENT AND NATIONALISED INDUSTRIES

As you know, the document setting out the Government's proposals arising from the CPRS report, which was approved by E(NI) in December, has been amended as a result of discussions with the NICG and more recently points raised by the Prime Minister. These amendments have been incorporated in the revised version which ... is attached.

The document in its present form has been sent to the NICG and they have accepted it as the basis of discussion between the industries and sponsor Departments.

I am copying this letter to the Private Secretaries of other E(NI) members, Mr. Ibbs and Sir Robert Armstrong.

*Yours ever  
Peter*

P.S. JENKINS

## RELATIONSHIP BETWEEN THE GOVERNMENT AND THE NATIONALISED INDUSTRIES

1. At the Government's invitation the Central Policy Review Staff (CPRS) has carried out a study of the relationship between Government and the nationalised industries, and has now presented its report to Ministers. The Government has considered the recommendations, and is taking steps to improve its own organisation for dealing with the better understanding of business in Whitehall (see paragraphs 6 and 7 below). But some of the recommendations, which it also favours, concern the industries themselves, and it wishes to discuss the implementation of these with Chairmen.

2. The purpose of this paper is accordingly to provide for Chairmen an outline of those general recommendations that carry direct consequences for their industries, supported by a summary of the reasoning that lies behind them. It needs to be stressed that the recommendations are of a general nature. The industries are extremely diverse, both functionally and in terms of their market position, and are subject to different statutes. The ways in which the recommendations can best be implemented in individual industries will consequently require detailed discussions between Chairmen and the relevant Secretary of State. During these discussions the Government will welcome suggestions from the industries themselves.

Basic Relationship

3. Clearly a better relationship between Government and the industries will not in itself solve all problems or remove all risk of a conflict of interests. However, a improved relationship would greatly increase the chances of dealing with difficulties more effectively. There is much to be gained from a better unity of purpose. What is required is a relationship whereby the industries move in a broad direction agreed by Government after full consultation with the Boards and consistent with their responsibilities under statute. The environment must provide effective surrogates for market forces where these are missing. Direct intervention by Government can then be minimised.

Clarity of Objectives

4. A satisfactory relationship between Government and the industries requires that there should be clarity of objectives. Policy towards the industries needs to look well ahead. The Government therefore intends that Ministers should agree long-term objectives with Chairmen and the Boards. Such objectives would mainly be qualitative, with detailed figures to be filled in by the corporate plans and annual budgets. These objectives should be consistent with the statutory duties of the Boards and with any financial targets and performance aims.

Such a set of objectives would form the basis of the partnership between the Secretary of State on the one hand and the Chairman and the Board on the other. Generally they would last for a number of years, but obviously they would not remain totally immutable in a changing environment. If either the industry or the Government wished to change the objectives, then further consultation would be necessary. This would serve to make explicit the consequences of a change in direction. Effectiveness in relation to the objectives will provide a basis for judging management performance.

#### Greater Business Understanding in Whitehall

6. The Government, acting on behalf of the nation, which is the owner, must be able to assess performance and ensure that any serious deficiencies are corrected. While not attempting to interfere in the conduct or management of the businesses, the Government must be able to understand them if it is to be effective in this role. Ministers have accepted the CPRS view that greater business understanding is needed in Whitehall

- to arrive at workable objectives agreed with the industries;
- to see that these objectives are properly translated into quantified targets and assess performance against these targets;
- to appreciate the business implications of other decisions affecting the industries;
- to ensure that the commercial needs of the industries are properly understood and taken into account by Government.

Ministers intend to strengthen their arrangements for collective consideration of matters affecting the nationalised industries. Those arrangements will be supported by a small Review Staff which will form part of the Central Policy Review Staff. The Treasury and sponsor Departments will also take steps to strengthen both the general business expertise of the staff advising Ministers on nationalised industry matters and especially their understanding of the particular business sectors with which they are concerned.

7. Clearly also Whitehall cannot gain a better understanding of the industries unless it is adequately informed. In order to achieve this, Ministers propose to develop further three sets of existing arrangements:-

- i. A regular and systematic programme for comprehensive annual assessment of each major industry. This would be centred on the industry's Corporate Plan and would look at the commercial performance of each industry including its achievements against agreed targets, its main forward plans, and trends in

pay, pricing and productivity. The sponsor Department and its Secretary of State would be in the lead, but would report to Ministers collectively on the industry's performance and prospects, and on any strategic options needing collective consideration. This would lead into the IFR and thereafter to the autumn settlements of EFLs, and the aim would therefore be to carry out these reviews so far as possible by May of each year.

ii. Improved procedures for monitoring progress against plans. These would provide up-to-date information, on the basis of which any divergence from plans could be discussed with the industry to establish the scope for corrective action where appropriate.

iii. Greater understanding of industries' investment appraisal techniques and the content of investment programmes. The Boards must of course remain responsible for devising and justifying their investment programmes. But Ministers need to satisfy themselves about appraisal methods and standards, and to draw on relevant information in reaching decisions about overall priorities.

Detailed proposals on these lines will be put to individual industries. In preparing them, Departments will be expected to bear in mind that the purpose of these improvements is not to second-guess the Boards in their direction and detailed management of the businesses but to enhance Whitehall knowledge and understanding. Departments can then better appreciate and assess the business arguments and considerations put to them by the industries. A more systematic approach to reviews and monitoring will reduce the need for ad hoc requests for further information and Departments will cover this aspect in their discussions with the industries. Ministers will be concerned to ensure that the new arrangements regarding staffing (paragraph 6) and information flows (paragraph 7) do not lead to Boards being burdened by external vetting to an extent detrimental to their effective conduct of the businesses.

#### Better Self-regulation of Nationalised Industries

8. The absence of any real threat of bankruptcy and the relative weakness of market forces in some, though not all, nationalised industries is a factor that must be recognised; it imposes a duty on the Government to ensure on behalf of the nation that the industries are efficient. Monopolies and Mergers Commission (MMC) references are the Government's principal instrument for securing an external public audit of industries' efficiency. Alternatively, enquiries by consultants may in some instances be appropriate. Following its undertaking in response to the PAC (Cmd 83) the Government proposes to announce very shortly an extended programme of MMC references, on the lines described in the Annex.

However, the principal pressure towards increasing efficiency must come from within the industries. The Government will therefore wish to be satisfied that each Board has effective systems for reviewing all aspects of efficiency and that the necessary follow-up action is taken when scope for improvement is found.

10. Under the statutes the pursuit of efficiency is a major responsibility of the whole Board, under the Chairman. But the Government has been considering whether, without weakening the unity of the Boards, which is crucial to the effective conduct of the businesses, ways can be found of giving the non-executive directors a still more positive role in this area than hitherto. This could be achieved in four main ways:

- a. Each Secretary of State when appointing non-executive directors would make clear to them the particular interest which he would wish them to take in the efficiency of the business.
- b. In addition, the Secretaries of State would invite the Chairmen to consider whether the non-executive directors could be charged with specific tasks. For example:
  - i. to keep a watch on whether the industry is moving in accordance with agreed objectives and if not to draw this to the attention of the Board;
  - ii. to take special interest in the internal efficiency of the industry and to ensure that best management practice is maintained;
  - iii. to identify and draw to the attention of the Board any matter requiring special efficiency audits, whether undertaken by the MMC or any other body, are followed up.
- c. The Boards would be asked to consider the setting-up of Efficiency Audit Committees consisting of non-executive directors or similar bodies where these do not already exist.
- d. It is envisaged that the non-executive directors would also play a major role, alongside the Chairman and other Board members, at a meeting with the Secretary of State at least once a year to report on progress towards agreed objectives including efficiency objectives. This meeting would also provide an opportunity to review any improvements needed in the industry's relationship with the Department.

11. Secretaries of State propose to discuss with Chairmen the constitution of their Boards. In these discussions, full account will be taken of the particular circumstances of each corporation, including statutory requirements. However in the

Government's view there should generally be a majority of non-executive directors. It is also essential that they should have appropriate business and other experience and be of the right calibre. This would enable them to exercise a major influence on the work of the Boards so to reassure public opinion that the Boards are effective self-regulating bodies despite some lack of market forces. Ministers also see a strong case for smaller Boards wherever possible less than 12: the larger the Board the less the opportunity for constructive discussion by all members and the more key decision-making is likely to devolve to smaller groups.

#### Other Proposals

12. To strengthen the interchange of experience between public and private sector businesses, the Government believes that executive members of nationalised industry Boards should be positively encouraged to take up non-executive directorships in the private sector to the extent that the Secretary of State considers, in the individual cases, that this is compatible with their prior commitments to their Boards.

13. Because many of the industries are very large, encompassing a variety of different activities, the Government would like in general to see parts of the industries designated as cost or profit centres, and producing management accounts which allow their success in these connections to be assessed. Only the Board has the detailed knowledge to assess what sub-division makes sense for each industry. But the Government believes that the potential benefit of individual cost or profit centres for policy making could be considerable, for example, to expose the extent of cross-subsidisation. Furthermore, sub-division of some, though not necessarily all, industries should make them more easily manageable and thus bring efficiency gains.

#### Conclusion

14. The foregoing paragraphs give no more than the broad thrust of the Government's proposals with an outline of the reasoning behind them. More detailed points and the implications of the recommendations for individual industries can only be constructively discussed in dialogues between Chairmen and their respective Secretaries of State. The Government proposes that after a preliminary general discussion in the Nationalised Industries' Chairmen's Group, these detailed consultations should be the next stage.

- 3 MAR 1982







cc: DOE Mr. Ibbs  
SO (CPRS)  
D/I CO  
D/TRADE  
D/TRANS  
CH. SEC. HMT  
D/EN  
EMP

10 DOWNING STREET

*From the Private Secretary*

10 February 1982

*Now ind*

Relationship between Government  
and Nationalised Industries

Further to my letter of 8 February, the Prime Minister has seen the amendments to the document for nationalised industry Chairmen, set out in Mr. Ibbs' minute to me of 9 February (copy attached).

The Prime Minister is content for the document, amended in these ways, to be sent to the Chairmen.

I am sending a copy of this letter to the Private Secretaries to the other E(NI) members, Mr. Ibbs and Sir Robert Armstrong.

M. C. SCHOLAR

Peter Jenkins, Esq.,  
HM Treasury

CONFIDENTIAL

BK



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

Terry Mathews Esq  
Private Secretary to  
The Rt Hon Leon Brittan QC MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3HE

10 February 1982

Dear Terry,

MMC: FORWARD PROGRAMME OF NATIONALISED INDUSTRY REFERENCES

The Chief Secretary asked in E(NI) (82) (1) for views on two matters. I am sorry for the delay in responding but hope this letter is with you before this afternoon's meeting of E(NI) at which my Secretary of State will be represented by Mr Alex Fletcher.

First, as regards the 1982 programme of references, my Secretary of State is content with the proposed inclusion of the Scottish Transport Group's shipping subsidiary Caledonian MacBrayne. He would be happy to see this investigation start earlier than July, if that is possible.

Second, the Secretary of State thinks that on balance the proposed announcement should not include provisional candidates for the later years. He recognises the importance of making clear to nationalised industries that these references are intended to be routine and are not to be regarded as punitive: and he would have thought that in any circumstances it would be important to make this very clear in the announcement. But Mr Younger does not think it would be made any clearer, or that any other advantage would be derived, by publishing the provisional list. There are obvious risks of being unnecessarily boxed in or, if the provisional programme is subsequently changed, of possibly damaging speculation as to the Government's reasons.

I am copying this letter to the Private Secretaries to the Prime Minister, other Members of E(NI) and Sir Robert Armstrong.

Yours sincerely

John Wilson

JOHN WILSON  
Private Secretary



CONFIDENTIAL

Prime Minister

(1)

Will these changes

meet your concern?

Qa 05822

9 February 1982 Can the

To: MR SCHOLAR

From: J R IBBS

Yes, but it is still not good!

Chancellor now send the document, amended in these ways?

Relationship between Government and Nationalised Industries

M/S 9/2

1. The Prime Minister has asked for some redrafting of the document for nationalised industry Chairmen, to present the issues with greater clarity. An earlier version was of course approved by E(NI) at its meeting on 19 November and sent to nationalised industry Chairmen, and there have been further discussions since then, so that it would be awkward to re-cast the whole document now. But I think we can improve the drafting on some points of particular concern to the Prime Minister.

(i) The last part of paragraph 3 might be simplified as follows:-  
"What is required is a relationship whereby the industries move in a broad direction agreed by Government after full consultation with the Boards and consistent with their responsibilities under statute. The environment must provide effective surrogates for market forces where these are missing. Direct intervention by Government can then be minimised."

(ii) For the third and fourth sentences of paragraph 4, substitute:-  
"Such objectives would mainly be qualitative, with detailed figures to be filled in by the corporate plans and annual budgets".

(iii) For the first two sentences of paragraph 5, substitute:-  
"Such a set of objectives would form the basis of the partnership between the Secretary of State on the one hand and the Chairman and the Board on the other. Generally they would last for a number of years, but obviously they would not remain totally immutable in a changing environment. If either.....".



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(iv) At the end of paragraph 7, amend the end of the middle sentence to read:-

".....to enhance Whitehall knowledge and understanding.

Departments can then better appreciate and assess the business arguments and considerations put to them by the industries".

3. Because the discussions between the Secretaries of State and the individual chairmen are now beginning it is desirable to settle the form of the document so that it can provide the defined background for these talks. If the modifications suggested above do not meet the points on which the Prime Minister is concerned and if there is any point of substance that needs to be resolved, the quickest way to make progress may be to raise this matter briefly in the course of the meeting of E(NI) tomorrow.

4. I am sending a copy of this minute to John Hoskyns and to Sir Robert Armstrong.

conqueror



P.0647

PRIME MINISTER

Monopolies and Mergers Commission: Nationalised Industries  
(E(NI)(82)1

## BACKGROUND

The Committee decided in November that up to six nationalised industries a year should be referred to the Monopolies and Mergers Commission (MMC); and that there should be a four year rolling programme of references, with the programme for the first year announced publicly (E(NI)(81) 2nd Meeting, Item 2).

2. The Official Committee on Nationalised Industry Policy (NIP) has prepared a draft programme of references for the four years 1982 to 1985. It is set out in the Annex to the note by the Chairman of NIP attached to the Chief Secretary's note.

3. The Chief Secretary invites the Sub-Committee:

- i. to decide questions on individual references which officials have not been able to resolve; and
- ii. to decide whether the whole four year programme should be announced publicly, or only the first year as E(NI) has already decided.

## MAIN ISSUES

Should the whole programme be published?

4. Publishing the full programme of references, on a provisional basis, might help to demonstrate that MMC references are to be seen as a routine way of checking on the industries' efficiency rather than a punitive measure; and should help to demonstrate the Government's commitment to investigate and improve nationalised industry efficiency. On the other hand some Ministers may feel that, once a programme had been announced, however provisionally, it could be embarrassing to alter it.

5. If the Sub-Committee decides in favour of publishing a four year programme Departments will probably need to look again at the provisional programme annexed to E(NI)(82)1 in order to check that there is no reason why its individual constituents should not become public knowledge.

6. If the Sub-Committee decides that only the first year's programme of references should be published there would nonetheless be advantage in Departments being able to tell individual industries more than twelve months in advance that it is the Government's intention to refer them to the MMC.

#### Specific Proposals: 1982 Programme

##### Post Office and British Telecommunications

7. The MMC reported on the inner London letter post in 1980. In NIP the Department of Trade have proposed, with general support, that the Commission should now be asked to look at postal services outside London. Department of Industry officials have opposed such a reference largely on the grounds that it is too early for the Commission to judge how effectively the Post Office have put into practice its 1980 recommendations, which have implications outside London. The Sub-Committee will wish to consider how much weight to give to that argument. On the face of it the Post Office ought by mid-1982 to have made considerable progress towards implementing the MMC's 1980 recommendations. If it has not, all the more reason for the Commission to keep up the pressure on Post Office management.

8. The Secretary of State for Industry may suggest that the MMC should instead study Post Office counter services; but there appears to be some risk of overlap both with a Post Office management study and with a Rayner study into the counter services which the Post Office provides on behalf of the Department of National Savings.

9. A third possibility would be for the Commission to look at British Telecom during the first half of this year. If the Secretary of State for Trade suggests this, the question for the Sub-Committee will be whether it is reasonable for the MMC to look so soon at the new corporation. If not, there will be a reference in March 1983, as the provisional programme prepared by officials suggests.



### British Gas Corporation

10. It is agreed that there should be an early study of the British Gas Corporation (BGC). At issue is whether the MMC or management consultants should carry it out.

11. The main arguments for entrusting the study to the MMC appear to be that if references to the Commission are indeed the main aspect of the Government's efforts to improve the scrutiny of nationalised industry efficiency the Commission should be allowed to have an early crack at such a major corporation as BGC; and that the Commission's report would be seen as impartial and objective. The main argument for using management consultants, which the Secretary of State for Energy would prefer, is that BGC needs very soon to identify how it should modify its organisation and the way it operates in response to the changes which the Oil and Gas (Enterprise) Bill now before Parliament will bring; and that consultants would be much better equipped to produce a forward looking study of that kind than would the Commission, whose reports typically analyse matters as they are at present. The Corporation itself would welcome and jointly commission a study by management consultants: an investigation by the MMC, in contrast, would probably worsen working relations between the Government and the industry.

12. The Secretary of State for Trade may well be prepared to agree that management consultants should examine the BGC provided that their report is published and that it is agreed that the MMC should look at the Gas Corporation in the future: the Annex attached to E(NI)(82)1 suggests late 1985 as a possible date for a reference. If it does not investigate BGC this year the MMC will look instead at one or two of the area electricity boards.

### Coal

13. It has been provisionally agreed that the National Coal Board (NCB) should be one of the first industries referred to the MMC this year; but Ministers have been concerned that the reference should not worsen industrial relations in the coal industry. In his letter of 26 January to the Minister for Consumer Affairs, the Parliamentary Under Secretary of State at the Department of Energy (Mr John Moore) proposes that the Government should announce its intention to refer the NCB to

the MMC in the latter half of this week; and should formally refer the Board to the Commission shortly afterwards. I understand that the Department of Trade Ministers are content with this proposal; they may indeed already have replied to Mr Moore's letter before E(NI) meets.

#### Later Years

14. If the Sub-Committee decides that the Government should only publish one year's proposed references at a time it would be possible to postpone decisions on specific references proposed beyond the end of 1982. The Sub-Committee could agree to look at the points at issue in six months' time when it will need to decide what references are to be announced for the first six months of 1983. But it would assist in reaching agreement among Departments about the likely pattern of references in future years if Ministers showed that they were sufficiently committed to the rolling four year programme to settle the issues about references after 1982 which the Chairman of NIP's note mentions. Sponsor Departments are often very reluctant to see "their" industries listed.

#### British Shipbuilders and British Steel Corporation

15. In NIP it has been suggested that these industries might be referred to the Commission in mid-1983 and mid-1984 respectively. In both cases the question is whether an investigation by the MMC would increase the pressure on the industries to reduce losses and increase efficiency. It may be that there is a stronger case for a Commission investigation into British Shipbuilders than into the British Steel Corporation. As discussion of the other item on the Sub-Committee's agenda will probably show it is by no means clear that British Shipbuilders are making realistic assumptions about the future prospects for their industry.

#### HANDLING

16. You will want the Sub-Committee to discuss separately:
- a. whether the whole programme or only the first year should be announced publicly;





b. the 1982 programme;

c. the later years.

17. The Chief Secretary, Treasury will wish to introduce his memorandum and will no doubt reaffirm his support for announcing the full four year programme on a provisional basis. Most other members of the Sub-Committee will probably have a view on that question.

18. On the 1982 programme the Secretary of State for Industry will want to comment on the proposed reference of the Post Office or British Telecom; and the Secretary of State for Energy on the British Gas Corporation, and if necessary, the National Coal Board. The Secretary of State for Trade and the Chief Secretary will probably want to comment on both, or all three, cases.

19. The Secretary of State for Industry, the Secretary of State for Trade and the Chief Secretary will also wish to comment on the proposed reference of British Shipbuilders and the British Steel Corporation in later years.

#### CONCLUSIONS

20. You will want to record the Sub-Committee's conclusions on:

a. whether the Government should publish a one year programme of references or a provisional four year programme;                     

b. the proposed reference of:

i. the Post Office/British Telecom;

ii. British Gas Corporation;

iii. (if necessary) the National Coal Board;

iv. British Shipbuilders;



v. the British Steel Corporation.


21. On (a), if the Sub-Committee decides that planned references should be announced only one year ahead it will probably want to authorise sponsor Ministers to give longer notice of planned references to the industries concerned.

22. It would be for the Secretary of State for Trade to announce the programme of references. He will need to agree the terms of his announcement with other members of the Sub-Committee.

23. The Chief Secretary could be asked to arrange for any further inter-departmental discussion at official level.

*PLG*  
P L GREGSON

9 February 1982

  
CONFIDENTIAL

P.0646

PRIME MINISTER  
\_\_\_\_\_

NATIONALISED INDUSTRIES : BOARD  
APPOINTMENTS

E(NI)(82)4

BACKGROUND

In E(NI)(82)4 the Chancellor of the Duchy of Lancaster seeks views on her officials' recommendations for improvements in the arrangements within sponsoring departments for dealing with appointments and re-appointments of Nationalised Industry Board Members.

2. The proposals are summarised in paragraph 24 of the paper by officials attached to E(NI)(82)4. They recommend the introduction of a more formal process of succession planning by departments with procedures laid down for originating proposals and for consultation; the aim of starting the process at least nine months before the end of a board member's term of office; and ensuring that all board members concerned are given at least six months notice of the sponsoring Minister's intentions for them.

HANDLING

3. After the Chancellor of the Duchy of Lancaster has introduced her paper you might ask Mr Ibbs whether he has any comments from the stand-point of the Central Policy Review Staff's recent report and work on relationships between the nationalised industries and the Government.

4. The proposals do not seem contentious and, unless any of the sponsoring Ministers wish to comment on them, it may not be necessary to discuss them.

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CONCLUSIONS

5. In the light of the discussion you will wish to record conclusions on whether the proposals in paragraph 24 of the paper attached to E(NI)(82)4 are approved and, if so, inviting sponsoring Ministers to implement them.

*PLG*

P L GREGSON

8 February 1982

CONFIDENTIAL

Prime Minister

(2)

JU11



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB  
TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7675

Secretary of State for Industry

8 February 1982

The Rt Hon The Baroness Young  
Chancellor of the Duchy of Lancaster  
Privy Council Office  
Whitehall  
SW1

*ms*

Dear Janet,

At the meeting of E(NI) on 3 December it was agreed that the Ministers concerned should write to let you know whether we would welcome a Rayner Scrutiny of one of the nationalised industry sponsoring divisions in their Departments, on the lines proposed in your minute of 2 December to the Prime Minister.

2 I have considered this proposal carefully but I very much doubt whether it would produce useful results. There has, of course, been no shortage in recent years of studies of various kinds of the relationship between Government Departments and the nationalised industries and it seems very unlikely that a Rayner Scrutiny would break any new ground. The subject is not in any case one to which the Rayner approach is particularly suited. My main aim is to get ahead rapidly with the various significant changes affecting our relationships with the nationalised industries which we have decided upon following the CPRS's Report. In particular I attach importance to bringing into the Department more outside business experience so that our decisions will be based on a better understanding of the problems and constraints of commercial life. I am therefore seeking to recruit two more businessmen to my Industrial Development Unit.

3 The sponsoring divisions will need to work hard in the coming months to make these new arrangements operate effectively and any new study would be bound to distract them from this task. Moreover, a Rayner Scrutiny would need to be carried out in co-operation with the industry concerned and could well create the impression that we remained dissatisfied with the outcome of the CPRS Report. Nevertheless, although I would be opposed to launching any new formal study, I would be content for our officials to continue their exploratory discussions on organisation development which, as you noted in your minute to the Prime Minister, they have initiated.

4 I am copying this to the Prime Minister, other members of E(NI) Committee, to Sir Robert Armstrong and Robin Ibbs.

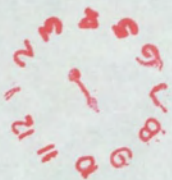
*Young*  
*ibbs*



*20*

*100*

FEB 18 1944



*1*



With the Compliments of

**ROBIN IBBS**

**CENTRAL POLICY REVIEW  
STAFF**

Cabinet Office  
Whitehall London  
SW1A 2AS

Telephone or **233** 7765



CC JV  
AD

NBPM

MUS 9/2

CABINET OFFICE  
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: J. R. Ibbs

Qa 05820

CONFIDENTIAL

8 February 1982

*Dear Secretary of State,*

Nationalised Industry Objectives

Thank you for sending me a copy of your letter dated ~~29~~ 29 January to the Secretary of State for Energy on draft objectives for the nationalised industries.

You will have seen from my letter dated 22 January, which like yours responded to the letter dated 23 December from the Private Secretary to the Secretary of State for Energy, that my general view is that objectives should be restricted to clear statements of what it is that Ministers require from each industry. I do not believe that re-statements of statutory or other basic duties would generally be helpful.

Against this background I have some difficulty with your suggested objective on industrial relations for general inclusion in nationalised industry objectives. It seems to me irrefutable as a general statement of sound management practice but I doubt whether it gives nationalised industry managements sufficiently specific guidance to be helpful. For example, to be beneficial, employee involvement has to be tailored to the situation and needs of a particular industry - indeed, I think inappropriate forms of involvement have in some instances contributed to the disappointing performance of some industries. I am therefore doubtful about the value of general

The Rt Hon Norman Tebbit MP  
Department of Employment  
CAXTON HOUSE  
S W 1



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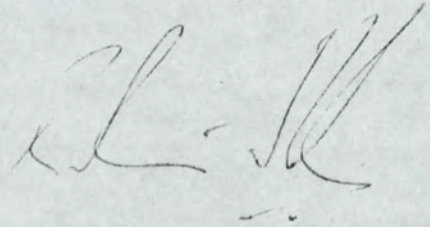
exhortation in this area. Obviously I would support the inclusion for an individual industry of clear-cut objectives where Ministers see a special need to deal with its industrial relations or employee involvement needs, provided such objectives can be suitably defined.

Your comments on the objectives on training seem to me to echo the doubts I have just expressed. I share your uncertainty when you say "I am not at all sure that any general objective on this subject can be expected to offer management much useful guidance." But again I would support the inclusion of any objectives tailored to the individual needs of a particular industry.

Needless to say I agree entirely with your paragraph on performance aims. Progress on these should be helped by the programme of performance reviews and systematic examination of corporate plans that has now been arranged.

I am sending a copy of this letter to the members of E(NI), and to Sir Robert Armstrong.

*Yours sincerely,*

A handwritten signature in dark ink, appearing to read 'J R Ibbs', written in a cursive style.

J R Ibbs

E(NI)

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*From the Private Secretary*



*Sup  
be liquid*

10 DOWNING STREET

8 February 1982

NATIONALISED INDUSTRIES:  
FOLLOW-UP TO CPRS REPORT

Many thanks for your letter of 3 February with which you enclosed a revised version of the document outlining the Government's proposals originally attached to the Chancellor's minute of 25 January.

The Prime Minister has commented that parts of this document must be rewritten: they lack that very clarity which the authors say is vital for the relationship between Government and nationalised industries. Her comments apply particularly to paragraphs 3 - 7 inclusive. She has asked that Robin Ibbs and John Hoskyns should be associated in the redrafting process.

I am sending copies of this letter to the Private Secretaries to Members of E(NI), Mr. Ibbs and Sir Robert Armstrong.

M. C. SCHOLAR

P.S. Jenkins, Esq.,  
HM Treasury.

~~CONFIDENTIAL~~

*HU*

PART 5 ends:-

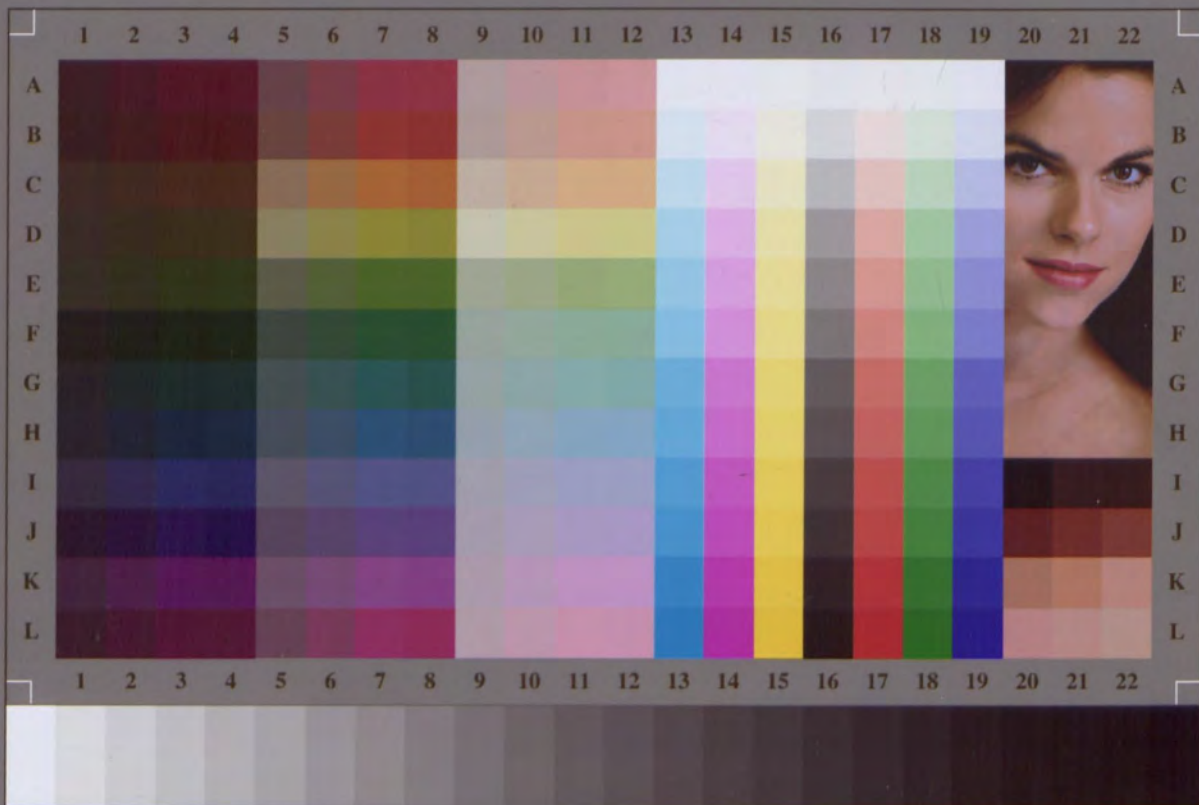
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PART 6 begins:-

5.2.82

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