PREM 19/1327

MT

PART 8

Confidential Filing

Policy towards the Nationalised Industries.

Financial Control.

NATIONALISED INDUSTRIES

Part 1: MAY 1979

Part 8: JAN 1983

PREM 19/1327

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
5.1.83		~~16.11.83~~					
~~14.1.83~~		~~5.12.83~~					
~~19.1.83~~		~~8.12.83~~					
~~24.1.83~~		30.12.83					
3.2.83		23/12/83					
~~4.2.83~~		29.12.83					
~~11.2.83~~		~~9.1.84~~					
~~23.2.83~~		~~12.1.84~~					
~~24.2.83~~		~~17/1/84~~					
~~7.3.83~~		~~6.2.84~~					
~~18.3.83~~		~~10.2.84~~					
25.3.83		13.2.84					
~~12.4.83~~		~~[illegible]~~					
~~26.4.83~~		9.3.84					
~~21.6.83~~		~~11.5.84~~					
~~28.6.83~~		23.5.84					
~~13.7.83~~		~~29.5.84~~					
~~14.7.83~~		31/5/84					
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~~5.9.83~~							
~~19.9.83~~							
~~31.10.83~~							
~~7.11.83~~							
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PART 8 ends:-

JR to AT 31.5.84.

PART 9 begins:-

SS/DTI to CST 4.6.84.

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E (NI) (84) 4	09/03/1984
E (NI) (83) 21	20/12/1983
E (NI) (83) 20	19/09/1983
E (A) (83) 2nd Meeting	14/07/1983
E (A) (83) 4	08/07/1983
E (NI) (83) 13	21/06/1983
E (NI) (83) 5th Meeting	26/04/1983
E (NI) (83) 8	25/03/1983
E (NI) (83) 3rd Item 2	09/03/1983
E (NI) (83) 6	24/02/1983

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed ______ Date 30/09/2013

PREM Records Team

BF 7/6 AT

31 May 1984

MR TURNBULL

NATIONALISED INDUSTRIES BILL

I have seen the exchange of correspondence between Peter Rees and Peter Walker.

Peter Walker is right in raising queries on the latest Treasury proposals. They have not all been discussed in full and together by E(NI), and there is a case for sending it back there to resolve these difficulties. Some people in the industries will construe this as an attack upon their position, but this is likely whatever the structure of the Bill.

It is right, however, to set common obligations and duties on a range of nationalised industries, and to repeal all of the different pieces of legislation about financial duties currently in place.

The main clause in the Bill which is vital to future nationalised industry policy is that allowing the establishment of separate Companies Act subsidiaries, and disposal of the assets. Peter Walker does not disagree with this clause, and it is important that it goes through in a robust way.

The clauses concerning the break-even duty and financial objectives have caused more difficulties. I can see little point in retaining a duty to break even if there is a wider power to set a range of financial targets, objectives and financing limits. The break-even duty is a nonsense both for the very profitable industries like gas, and for the heavy loss-making industries like British Rail and the National Coal Board. The burden of policy should be to force the loss-makers back towards profitability by setting ever tighter, but realistic, financial targets. I therefore recommend that the break-even duty be discontinued.

Peter Walker objects to the wider term "financial objectives". He does not think EFLs and performance aims ought to be statutory, and thinks they ought to remain subservient to financial targets. There are too many separate targets and objectives for nationalised industries at the moment, and of the ones on offer, the External Financing Limits and the performance targets are in many ways better than the financial targets. We could therefore support the granting of wider powers to set financial objectives, but we could allay some of the industry fears by a clause which states that where more than one target is set, the Government has a duty to make clear which is the prime target. In most cases, the prime target should be the External Financing Limit; but where the business is a

LATAAY

monopoly, performance targets are a necessary adjunct, otherwise the financial target can be hit by clobbering the customer.

Peter Walker does not object to the proposals on reserves. There is a case for giving powers to claw money back, although this will be contested by the industries.

There is disagreement between Peter Rees and Peter Walker over value-for-money audits. They both refer to the difficulties experienced in Parliament with the St John Stevas proposals last year, and it is true that any attempt to legislate on VFM audit will arouse further debate on this sensitive issue. However, it may not be possible to avoid debate on the whole issue of accountability, which will bring in VFM audit whether or not the Bill contains clauses to this effect.

The best type of value-for-money audit is not a random power to set up economy, efficiency and effectiveness scrutinies from time to time. A true value-for-money audit happens annually and is coincident with the financial regularity audit. It results in a general inspection of the effectiveness, efficiency and economy of the business, backed up by sampling the specific decisions and detailed areas of the activity on which a separate management letter or report would be filed by the auditors. It is a matter of public interest to know whether or not the major nationalised industries are being conducted in a way which generates value for money. This could be the subject of a separate audit report, as it now has to be for the local authorities; and this could be embodied in Statute, as again it was for the local authorities.

Recommendation

It is recommended that:

1. These major issues be put back to E(NI), as there is ground for further debate. This should happen speedily to avoid delaying the Bill.

2. The requirement to break even be dropped, as it is now superseded by the other financial targets.

3. A wider power for setting financial obligations and duties should be included, but the industries' worst fears be allayed by the Government having to specify which is the prior target.

4. Value-for-money audits should be included in the legislation, and should be part of the general financial audit. The general tenor of their comments

would be published as part of the annual report, and could then form part of the regular Parliamentary debate in the normal way.

JOHN REDWOOD

LATAAY

cc NO.

PA

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone ~~XXXXXXXXXX~~ 233 7029

CONFIDENTIAL

Reference No E 071

31 May 1984

John Gieve Esq,
Private Secretary
Chief Secretary,
H M Treasury,
Treasury Chambers,
Parliament Street,
LONDON SW1P 3AG

Dear John,

NATIONALISED INDUSTRIES BILL

I have just received a copy of the letter of 17 May from the Chief Secretary, Treasury to the Secretary of State for Energy about the proposed Nationalised Industries Bill, and also of Mr Walker's reply of 29 May. It seems possible from that reply that collective Ministerial discussion of the proposals may be needed. I should therefore be grateful if you and the other recipients of this letter would ensure that any further Ministerial correspondence on the subject is copied to Sir Robert Armstrong.

2. May I also take this opportunity to emphasise that it is highly desirable that all Ministerial correspondence on the business of Cabinet Committees and Sub-Committees, or likely to generate such business, should be copied to the Secretary of the Cabinet.

3. I am sending copies of this letter to Andrew Turnbull, the Private Secretaries to members of E(NI), the Lord President and the Lord Privy Seal, and to Richard Hatfield here.

Yours sincerely,

Michael Buckley

M S BUCKLEY

CONFIDENTIAL

NBPM
A5 31/5 CC NO

G

CABINET OFFICE.
WHITEHALL, LONDON SW1A 2AS

Chancellor of the Duchy of Lancaster

30 May 1984

Dear Peter,

NATIONALISED INDUSTRIES BILL

I have two points to raise.

1. "Breakeven Duty"

The "breakeven duty" has given rise to much misunderstanding and recently not a little difficulty. The "financial objective" has been grafted on to the "breakeven duty" so that effectively we now no longer mean what was implied by "breakeven duty" when this test was introduced in the original statutes in the 1940's. It is interesting that the British Airways Board Act of 1977 (which largely re-enacted the relevant provisions of the 1971 Act) cut this Gordian knot. It does not contain a breakeven "duty" plus a "best endeavours" financial obligation. It goes straight to the heart of the matter and imposes a duty to produce a rate of return on net assets which it is the duty (not the mere "discretion") of the Secretary of State to prescribe. Is not this the better precedent?

2. Accounting Principles

The detailed Memorandum says that "the methods and principles according to which the statement [ie the accounts] is prepared" are to be prescribed [or may be prescribed] by the Secretary of State. Are we clear just what this would mean? Accounting principles are decided by the Auditors on the basis of guidance or rules issued by the Accountancy bodies. Would it be open to the Secretary of State for example to over-rule the Auditors - or even desirable that he should have power to do so? I had a great deal of trouble on this point in relation to the rather peculiar accounts produced by British Airways. We need to be satisfied that this time we have got this right.

I am copying this letter to the Prime Minister, members of E(NI), the Lord President and the Lord Privy Seal.

Yours,
Arthur

COCKFIELD

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
H M Treasury
Parliament Street
London SW1

CC/SO

C

01 211 6402

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

29 May 1984

NATIONALISED INDUSTRIES BILL

Thank you for your letter of 17 May (received on 22 May) discussing your extended plans for the Nationalised Industries Bill.

I am concerned that the Bill as now proposed will be perceived as a major extension of Government powers over the industries and a further shift in the relationship between Government and Boards so as greatly to reduce Boards' managerial responsibility. Some of the proposed provisions are of course relatively straightforward developments of existing provisions. But the package as a whole may well be received with hostility as a wide-ranging attack on the industries and their ability to fulfil their statutory duties in a commercial manner. We are providing for more powers of Government direction in some areas where we have hitherto managed very well to proceed by agreement and sensible co-operation with the industries. By thus extending the scope of the Bill we also encourage another camp of different critics to press for even more powers than those we are proposing.

In return for taking on a difficult and unpopular passage for the Bill, I am not sure that we can hope to gain any very substantial benefit in the event of it becoming law. Many of the proposals cater for needs which may or may not arise in the future, or merely seek uniformity between industries. In the relatively few instances where we have an important specific objective in view we might be able to manage with a much smaller Bill.

I suggest, therefore, that we consider carefully the overall balance and content of the current proposal, which is now in sharper focus and larger than when Ministers last considered the issue at E(NI)(83) 5th Meeting in April 1983.

If we do proceed with a Bill of this kind there are two individual proposals which I consider should be omitted.

I am not persuaded that there is any case for broadening out the provision agreed at E(NI) on financial targets to cover financial objectives, which I understand your officials have confirmed as meant to include statutory powers to set EFLs and performance aims. There is no evidence of any real need here for statutory powers, as opposed to proceeding by agreement as at present; both EFLs and performance aims are subordinate to the financial target; and both require detailed analysis of an industry's activities with an industry's agreement in order to produce realistic targets with the necessary commitment and incentive. Legislating will not materially assist, but it will provide opportunities for renewed pressures for even more Parliamentary control as suggested, for example, by various Select Committees in relation to EFLs. I also note that E(NI) specifically rejected powers to set performance aims when it last considered the matter in April 1983.

I also believe that we should not include in the Bill as published any provision on Value for Money (VFM) audit. Industries are gradually improving their own arrangements in this area, and we can press them to do more where this is clearly needed. To legislate inevitably raises the question of Parliamentary accountability. Our experience with the St John Stevas Bill suggests that whatever proposal we might put forward would not only be attacked by the industries but would also be heavily criticised in Parliament, both by those seeking more and by those seeking less. We certainly cannot be confident where we would end up. We would do much better to start from the position that this Bill has nothing to do with VFM.

You noted that expanded provisions on Reserves are thought necessary to clawback surplus funds and because some industries will shortly become debt-free. However, as regards the energy nationalised industries, it is too early to say whether such powers would in fact have any role. (The electricity industry as a whole is, of course, not expected to be debt-free until 1988).

Finally, I welcome your intention to consult the industries quickly, and I would like my officials to be involved in any contact with the Nationalised Industries' Chairmen's Group. Such consultation is clearly important, both to perfect the proposed provision and to attempt to moderate what I fear could be an extremely hostile reaction to the full range of proposals now envisaged.

I am sending copies of this letter to the recipients of yours.

PETER WALKER

NBPM CC NO
AT 23/5

NATIONALISED INDUSTRIES BILL

Borrowing powers and limits

(i) An industry and its wholly owned subsidiaries may

(a) carry out temporary borrowing in sterling from the Secretary of State and with the consent of the Secretary of State and the approval of Treasury in sterling or a currency other than sterling from a person other than the Secretary of State.

(b) carry out borrowing other than by temporary loan for any or all of the following purposes:

- provision of money for meeting any expenses incurred by the industry or any of its subsidiaries in connection with any works the cost of which is chargeable to capital account

- provision of working capital required by it or any such subsidiary

- subscription for or acquisition of securities of an incorporated company or other body corporate, promotion of the formation of an incorporated company or participation in the promotion of such a company or acquisition of an undertaking or part of an undertaking

- repayment of any money borrowed by it or any such subsidiary and repayment of any sums issued by the Treasury in fulfilment of a guarantee by the Treasury

- for lending money to or meeting a guarantee given for the benefit of any person for the purpose of an undertaking carried on by him or, where that person is a body corporate, an undertaking carried on by a subsidiary of that body corporate

- for any purpose for which capital moneys are properly applicable.

(ii) Industries to ensure that none of their wholly owned subsidiaries borrow otherwise than from the Corporation or from another wholly owned subsidiary except with the consent of the Secretary of State and approval of Treasury

(iii) Industries and their wholly owned subsidiaries to have no power to borrow other than in accordance with their borrowing powers

(iv) The Secretary of State may give directions restricting or preventing a Corporation from lending to any or all of its wholly or partly-owned subsidiaries

(v) The aggregate amount outstanding in respect of

(a) borrowing by the industry

(b) borrowing by the industry's wholly owned subsidiaries

(c) borrowing by a third party (including partly owned subsidiaries) in respect of which the industry or one or more of its wholly owned subsidiaries is a surety or guarantor

(d) sums issued by the Treasury in fulfilment of guarantees

(e) PDC issued to an industry or S18 BSC advances

for each individual industry shall not exceed £X or such greater sum not exceeding £Y as the Secretary of State may from time to time by Order specify, subject to affirmative resolution. Borrowing shall include forward sales deliverable more than twelve months after payment, the issuing of bills of exchange, and any arrangements by which a sum payable at any date is payable at a later date (including sums arising from the purchase of any property).

(vi) An industry and its wholly owned subsidiaries may, with the consent of the Secretary of State and the approval of the Treasury, borrow in excess of the limit specified for that industry for the purpose of the redemption of any stock or other securities which the industry or one of its subsidiaires are required or entitled to redeem or the repayment of any money borrowed or raised.

(vii) The Secretary of State may with the consent of the Treasury specify other transactions which shall be regarded as borrowing for the purpose of the borrowing limit and how the amount which is deemed to be borrowed shall be calculated. The power to be exerciseable by order made by statutory instrument.

(viii) The Secretary of State may, with the approval of Treasury specify how loans other than in sterling shall be valued in sterling for the purposes of the borrowing limit. In the absence of such a specification, the valuation will be that prevailing at the time of drawdown. The power to be exerciseable by order made by statutory instrument.

(ix) Borrowing between wholly owned subsidiaries and between such subsidiaries and the Corporation shall not count towards the borrowing limit.

[NOTE: The relevant borrowing limits for all industries will be set out in a Schedule to the Bill. So that the bill contains a comprehensive statement of borrowing powers, standard form clauses will replicate present provisions by providing powers for the Secretary of State to lend to the industry; powers to issue Treasury guarantees; powers regarding the preparation by the Secretary of State of accounts concerning an industry's indebtedness to him.]

NATIONALISED INDUSTRIES BILL

Clawback of Revenue and Reserves

(i) If in any accounting year, there is an excess of revenue of the Corporation or any of its wholly owned subsidiaries over the total sums properly chargeable to revenue account, the Secretary of State may with the approval of the Treasury and after consultation with the Corporation require all or part of the excess to be paid to the Secretary of State.

(ii) The Secretary of State may with the approval of the Treasury and after consultation with the Corporation require all or part of any sum to be paid to him which is standing to the credit of any reserve of the Corporation or its wholly owned subsidiaries.

(iii) A Corporation may with the agreement of the Secretary of State, and shall if the Secretary of State with the approval of the Treasury requires them to do so, make payments to the Secretary of State in reduction of the public dividend capital of the Corporation. The Secretary of State may after consultations with the Corporation and with the agreement of the Treasury direct from time to time the rate at which any public dividend capital held by the Corporation shall be remunerated. The Secretary of State, with the approval of the Treasury, may issue public dividend capital to an industry.

(iv) The Secretary of State shall pay any sums he receives under this clause into the Consolidated Fund.

(v) Powers under this clause to be exercisable by direction and to have due regard to the interests of the Corporation and its creditors.

[NOTE: The breakeven and financial objectives clause allow the Secretary of State to direct sums/to be included among those properly chargeable to revenue account or as revenue.

NATIONALISED INDUSTRIES BILL

Reserves

(i) The Secretary of State may from time to time after consultation with the Corporation and with the approval of the Treasury require the Corporation or its wholly owned subsidiaries:

(a) to allocate to reserve generally or to reserve for a particular purpose either a specified amount or such amount as the Corporation considers adequate.

(b) to reallocate for a specified purpose the whole or any part of any amount previously allocated to reserve for some other purpose.

(c) to apply amounts allocated to reserve for a specific purpose.

(ii) Any allocations or re-allocations under (i) may either be required to happen at a specific time or during the course of a specified period.

(iii) The Secretary of State may after consultation with the Corporation and with the approval of the Treasury require that all or part of a sum standing to the credit of reserves maintained by the Corporation or its wholly owned subsidiaries shall either be deemed to be a loan made to the Board or its wholly owned subsidiaries. or to be public dividend capital. The rate of interest on any such loan and the arrangements for repaying it shall be as determined by the Secretary of State with the agreement of the Treasury.

(iv) All powers under this clause to be exercisable by Direction and to have due regard to the position of creditors.

NATIONALISED INDUSTRIES BILL

Annual Report

(i) Duty on the Corporation to make to the Secretary of State, as soon as possible after the end of each accounting year, a report on the performance of its functions during that year.

(ii) Report made in (i) above to include such classes of information as the Secretary of State may specify in writing and any direction given by the Secretary of State during the year unless publication of any such direction thought in his opinion to be against the interests of national security or commercial confidentiality.

(iii) Secretary of State to lay a copy of each report received by him in pursuance of this clause before each House of Parliament.

NATIONALISED INDUSTRIES BILL

Accounts and Audit

(i) Duty on the Corporation to keep proper accounts and records; to prepare in respect of each accounting year a statement of accounts giving a true and fair view of the state of affairs and profit and loss of the Corporation; to prepare in respect of each accounting year a statement or statements of consolidated accounts or such other form of group accounts as specified by the Secretary of State giving a true and fair view of the state of affairs and profit and loss of the Corporation and including all its subsidiaries except for such exclusions as the Secretary of State may determine with the approval of the Treasury.

(ii) Every statement of accounts prepared by the Corporation in accordance with this clause to comply with any written notice given by the Secretary of State and with the approval of the Treasury, in relation to the information to be contained in the statements of accounts, the manner in which the information is to be presented, and the methods and principles according to which the statement is prepared. Corporation may be required to present same information in different ways.

(iii) Power for the Secretary of State after consultation with the Corporation and approval of the Treasury to direct that the accounting year shall end on such date as specified in the direction, whether before or after the date on which it would otherwise end.

(iv) All statements and accounts kept and prepared by the Corporation under this clause to be audited at the end of the accounting year by auditors appointed by the Secretary of State after consultation with the Corporation.

(v) Auditors appointed under (iv) above to be a member either of one or more bodies of accountants established in the United Kingdom and recognised for the purposes of section 161(1)(a) of the Companies Act 1948 by the Secretary of State or a person authorised under Section 161(1)(b) of that Act: a Scottish firm to be so appointed if each of the partners therein is qualified to be so appointed.

(vi) Auditors appointed under (iv) above to have right of access at all times to the books and accounts and vouchers of the Corporation, and be entitled to require from the officers of the Corporation such information and explanation as are necessary for the performance of the duties of the auditors.

(vii) Duty on the subsidiary, and its auditors, of the Corporation to give to the auditors of the Corporation such information and explanation as those auditors may reasonably require for the purpose of their duties as auditors of the Corporation. Duty on the corporation, if required by its auditors to do so, to obtain such information and explanation as aforesaid.

(viii) As soon as accounts kept and statements prepared have been audited, Corporation to send Secretary of State a copy of the statements; copies of the statements of accounts for those subsidiaries as the Corporation, with the approval of the Secretary of State and consent of the Treasury, may determine; copies of the statements of accounts of each subsidiary of the Corporation except for such exclusions as the Secretary of State, with the consent of the Treasury, any specify by notice in writing; and a copy of any report made by the auditors on the statements or accounts of the Corporation. Secretary of State to lay copies of all statements and any report on the statements or accounts before each House of Parliament.

<u>Contingent VFM Provisions</u>

[(ix) Power for the Secretary of State to require the auditors of the Corporation to carry out in accordance with terms of reference specified by him an examination into the arrangements that have been made for securing economy, efficiency and effectiveness in the use of the resources of that body and those of its wholly owned subsidiaries and to report to the Corporation and to him. The duty imposed on the Corporation by (vi)-(vii) above to apply in any such examination.

(x) If the auditor responsible for auditing the accounts of the Corporation is unwilling to carry out an examination under this clause (or any such examination relating to a wholly owned subsidiary), or the responsible Ministers thinks that another person should do so, the responsible Ministers may appoint, after consultation with the Corporation and, where the examination relates to a subsidiary, that subsidiary, any other person provided that person has such qualification or experience that appear to the Minister to be appropriate.

(xi) Where the auditors of a Corporation are not also responsible for auditing the accounts for the corresponding period of a wholly owned subsidiary of that corporation, no examination in respect of that subsidiary shall be carried out by the corporation's auditors under (ix-x) above except after consultation with the auditors responsible for auditing the subsidiary's accounts for that period.]

NATIONALISED INDUSTRIES BILL

Breakeven Duty and Financial Objectives

(i) Duty on the Corporation to ensure that its consolidated revenues taking one year with another are not less than sufficient to meet all combined charges properly chargeable to revenue account and to make such allocations to reserve as the Corporation considers adequate and as may be necessary to comply with any directions given by the Secretary of State. The Secretary of State may, with the approval of the Treasury, direct that specified subsidaries are excluded from consolidated revenues for the purpose of this clause.

(ii) Power for the Secretary of State with the approval of the Treasury and after consultation with the Corporation to direct for the purposes of (i) above what items should be included among those properly chargeable to revenue account or as revenue.

(iii) Power for the Secretary of State with regard to (i) above and with the approval of the Treasury and after consultation with the Corporation to determine financial objectives for the Corporation and its wholly owned subsidiaries. Such objectives may be for different periods and relate to different assets and activities of the Corporation and may be varied or revoked. The power to be exercisable by Direction.

(iv) The Corporation shall conduct its affairs with a view to achieving any financial objectives currently in force.

NATIONALISED INDUSTRIES BILL

Creation of Subsidiaries and the Disposal of Subsidiaries, Properties and Rights

(i) Corporations to have the power to set up wholly owned subsidiaries under the Companies Act and with the consent of the Secretary of State and the approval of Treasury to be able by scheme to transfer property, rights and liabilities to them or between one such subsidiary and another. Corporations to be able to increase the capital of such subsidiaries.

(ii) With the consent of the Secretary of State and the approval of the Treasury, a Corporation may provide for an employee share scheme to be established for any subsidiary established under the Companies Act and for shares to be transferred into such schemes without consideration.

(iii) Corporations may with the consent of the Secretary of State and the approval of the Treasury dispose of equity in wholly owned subsidiaries and the Secretary of State may require all or part of any consideration arising on disposal to be paid by the Corporations into the Consolidated Fund. Such equity not to be sold other than with such consent.

(iv) The Secretary of State may with the approval of Treasury and after carrying out such consultations as he thinks fit, direct a corporation and its wholly owned subsidiaries in such manner as he specifies, to set up wholly owned subsidiaries and to require property, rights and liabilities to be transferred to them or between them. Power for the Secretary of State with the approval of the Treasury to direct a corporation and its wholly owned subsidiaries to dispose in such a manner, at such a time, and for such purposes as he specifies, of all or part of the equity of wholly owned subsidiaries, all or part of the equity held in partly owned subsidiaries, or such property, rights and obligations as he specifies. He may by order transfer to himself or to such persons as he specifies all or part of the share capital of a wholly owned subsidiary, all or part of the equity held in partly owned subsidiaries, or specified property, rights and obligations, and, in consideration of this, pay out of money provided by Parliament such sums as he specifies. Power for the Secretary of State to sell or otherwise dispose of such shares, property, rights, or obligations on such terms as he, with the approval of the Treasury, thinks fit and to pay any receipts into the Consolidated Fund.

(v) Power for the Secretary of State, after consultation with the Corporation to direct the Corporation to discontinue any activity either wholly or to a specified extent; not to extend any activity or not to extend it beyond specified limits; and to exercise its control over any wholly owned subsidiary so as to cause the subsidiary to discontinue any activity either wholly or to a specified extent and not to extend any activity, or not to extend it beyond specified limits.

(vi) The Secretary of State when exercising his powers set out above to have due regard to the interests of creditors.

(vii) All powers set out above to be exercisable notwithstanding any provisions set out elsewhere in statutes.

CONFIDENTIAL

cc NO

NBPM

AT 22/5

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

21 May 1984

The Rt Hon Norman Tebbit MP
Secretary of State for Trade
and Industry

Dear Norman

OVERSEAS PROJECTS BOARD REPORT ON THE OVERSEAS ROLE OF THE NATIONALISED INDUSTRIES

You wrote to me on 11 May enclosing a copy of the report prepared by the Ewbank Committee and asking the Treasury to take the lead in carrying its recommendations forward.

I agree generally with the views and proposals contained in your letter. The report is valuable in throwing light on an important aspect of nationalised industry affairs which normally receives little publicity and attention. The recommendations, particularly those affecting project management, seem on the face of it well aimed and should yield long-term benefits, both to the private sector, in terms of providing greater experience in this field, and to the nationalised industries, through better use of their resources. Sponsor Departments will clearly need to discuss the recommendations in detail with each of their industries but I agree this can best be done under the coordination of a central steering group which the Treasury is well placed to organise.

We must now, as you say, arrange a meeting between officials of our Departments and the NICG who have written to the Treasury separately. Meanwhile I am sending a copy of the report to John Dent, as the current NICG Chairman, so that the industries can begin to take stock of the report's recommendations.

I am copying this letter to the recipients of yours.

Yours
Nigel

NIGEL LAWSON

ENVIRONMENTAL AFFAIRS Effect of Acid Rain: Sept 79

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CENO.

BP with other Ministers' responses.

AT 31/5

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Thames House South
Millbank
London
SW1P 4QJ

17 May 1984

Dear Peter

NATIONALISED INDUSTRIES BILL

Officials have been working on the detailed provisions to be included in the Nationalised Industries Bill which we have agreed should be introduced next session and the annex to this letter sets out a summary of what is presently envisaged (other than the various technical clauses and the provisions on the appointment, dismissal, and compensation of board members on which the Chancellor is separately writing to E(NI)).

on Bill?

The Bill will cover all sixteen nationalised industries (and also London Regional Transport presuming the present LRT Bill is enacted). The structure of the Bill will have to allow it to relate sensibly to existing statutes (appropriate parts of which will be repealed) and thus existing provisions in some instances will have to be included and consolidated. Subject to Parliamentary Counsel's drafting we expect the whole Bill to be around 20 clauses long and have five schedules. Wherever possible, it has been cast as an enabling measure allowing Secretaries of State to apply the provisions flexibly to their individual industries within the overall common framework. Most of the proposals in the Bill will have precedents in existing legislation.

A number of points have arisen during the preparation of the Bill to date which I should draw to your and colleagues' specific attention:

(a) Breakeven Duty

The standard minimum breakeven duty has been retained with the added flexibility that Secretaries of State will be able to specify what items count as revenue or are chargeable to revenue account. This is to allow appropriate treatment of grants and to allow breakeven to be specified in either historic or current cost terms.

(b) Reserves

In line with previous PAC recommendations, we have already agreed collectively that the Bill should allow Secretaries of State to clawback surpluses from their industries. A power is also included (drawn from the 1977 BA Act) which will allow the capitalisation of all or part of an industry's reserves as loan capital or public dividend capital. We also propose general discretionary powers that would enable public dividend capital to be paid to industries and permit the overall rate of remuneration of PDC to be determined by the Secretary of State. We think that this is a necessary part of the clawback provision given the fact that some major industries (eg water on which Patrick Jenkin is developing proposals) are expected to become substantially debt-free in the foreseeable future.

(c) Financial Objectives

Over and above the minimum breakeven duty, industries will have to use their best endeavours to meet financial objectives specified by the Secretary of State. The nature of the financial objectives to be followed is left to the discretion of the Secretary of State for each of his individual industries. Normally, Secretaries of State will elect to specify a set rate of return on assets but in order to give sponsor Ministers maximum flexibility we have used the broader phrase "financial objectives". The flexibility this confers is in line with a number of existing statutes.

(d) Setting up of Companies Act subsidiaries and disposal of assets

The Bill will allow Secretaries of States to require industries to carry out specified activities within a Companies Act format and is intended to give wide powers over the privatisation of industries' assets and non-core activities. Full-scale privatisation will continue to require separate legislation.

(e) Value for Money Audit

For some years we have encouraged the development of value for money auditing within nationalised industries. There was heated debate last year during the passage of the St John Stevas' Bill about the best means of doing this and, in particular, whether the auditors should be accountable to Parliament, Ministers, or the industries. A number of our own senior backbenchers supported direct accountability to Parliament and rejected the Government's compromise proposals. It seems likely that the issues will be raised again during the passage of this Bill. We are still considering the implications of this and whether we should aim to pre-empt it by including a provision in the Bill or should wait for the debate to develop. In any event, I am sure it would be helpful if instructions are drawn up in case we decide to proceed. The attached accounts and audit provisions contain a power (ix-xi) which would allow Secretaries of State, if they wish, to direct an external scrutiny of the arrangements within an industry for securing economy, efficiency and effectiveness. The separate power over the classes of information to be contained within an industry's annual report will allow Secretaries of State to require industries to report the outcome of such studies and the workings of other arrangements they set up to ensure value for money. Industries' annual reports are, as now, to be laid before Parliament and this combination of powers will thus permit suitable accountability to Parliament without impugning the industries' ability to act commercially.

The Bill needs to be introduced at the very beginning of the next Session and we need to finalise Instructions to Counsel by the end of this month. I would be grateful if you and other E(NI) members could confirm as quickly as possible that you are content with the outline of what I propose so that the Treasury can let the Nationalised Industries' Chairmen's Group know our intentions. I then intend to announce via a written PQ our intentions to legislate in this area. This will in turn allow sponsor Departments to discuss detailed consequentials with their individual industries. Treasury officials will be continuing of course to consult sponsor Departments on points of detail during the drafting of Instructions and the preparation of the Bill itself.

I am sending copies of this letter to the Prime Minister, members of E(NI), the Lord President and the Lord Privy Seal.

Yours ever Peter

PETER REES

NAT IND Policy

Pt 8

NBPM AT 11/5

CONFIDENTIAL

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Secretary of State for Trade and Industry

11 May 1984

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Sent to NO 11/5 with request to return.

D Nigel,

OVERSEAS PROJECTS BOARD REPORT ON THE OVERSEAS ROLE OF THE NATIONALISED INDUSTRIES

There has for some time been concern in the private sector about the overseas role and activities of the nationalised industries and the adverse impact of their domestic project management and procurement practices on UK export capability, particularly in the major projects field. A number of the EDCs had proposed mounting a study earlier but were forestalled by the Overseas Projects Board (OPB) which, early in 1983, set up a Working Party (the Ewbank Committee) to examine the overseas role of the industries. You will recall that the existence of this Group led NEDC on 5 August last year to decide to postpone further action until the results of their work were known.

2 The Working Group have completed a Report which has now been endorsed by both the OPB and the British Overseas Trade Board (BOTB). While originating from a concern to enhance our export capability, the subject will clearly be of wider interest, to you for its relevance to financial economy in the public sector, and to colleagues with nationalised industry sponsoring responsibilities concerned with efficient management. A copy of the document is enclosed for your and others' consideration.

3 The proposals would involve significant changes to the nationalised industries' domestic attitudes. The recommendations fall into three main groups:

(a) Overseas advice and assistance - where a need is seen for clearer commercial and financial objectives for the international subsidiaries, and a greater recognition that their role should be complementary to that of the private sector and not competitive.

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(b) Project management and design - where the industries are urged to examine the scope for contracting out more work to the private sector, for commercial reasons as well as in order to enhance the export capability of the private sector consultants and contractors.

(c) Procurement - where suggestions are made to reinforce the public sector purchasing initiative, with the aim of encouraging the development of products which will meet the industry's own needs and at the same time be more readily marketable internationally.

4 The main target is project management, and I have no hesitation in endorsing the Working Group's arguments for a re-examination of practices. It is frankly ridiculous that our contractors and companies should be compelled to take on their first turnkey role or lead in major contracts outside this country. First, the progressive concentration of design and project management work into the hands of nationalised industries has undermined the ability of UK contractors to secure major business abroad by denying them a domestic track record. This applies to a number of sectors, including power engineering, gas, railways, airports, coal extraction, hospitals and water. It is notable that the areas where UK contractors have been most successful, for example process and steel works plant, are those in which the UK investors such as British Steel, Shell and ICI, are accustomed to rely upon private sector services. Secondly, it must be commercially dubious for the nationalised industries, which are principally operators and providers of services to maintain, unlike major private sector owners and plant operators, generous design and engineering establishments, in order to undertake the great bulk of their own development and project management work. Given the cyclical trend of investment in the public sector, it is not surprising that many of the staff concerned are now greatly under-utilised, and this is yet another example of the tendency of state enterprises to grow flabby and complacent. In this case, all the more objectionable since such practices have detracted from our ability to exploit public sector investment by gaining comparable export business.

5 As a first step, we need to agree a common attitude to the report and its conclusions. I hope you would agree that the Treasury is best placed to take the lead but I would wish my Department to be fully associated with this work at every stage. Secondly, the nationalised industry Chairmen must have the opportunity of commenting on the proposals, though I should say that the report has been seen by Philip Jones and Bob Haslam who have reacted quite favourably. In this conext, I understand that the Nationalised Industry Chairmen's Group have already approached your Department about the possibility of an early meeting with your officials and mine. That would provide an occasion to pass a copy of the report to the Chairmen and formally seek their views.

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Thirdly, it will also be necessary to consider how the recommendations can best be put into effect assuming, as I hope, that we agree them to be helpful and sensible in principle.

6 On the last point, the approach from the Chairmen's Group could be helpful and if they are willing to undertake a review on their own initiative, we would clearly wish to encourage them. I am also attracted by their idea of establishing a small steering group which, on the Government's side, could consist of officials from our two Departments and representatives from one or two of the sponsoring Departments, although the size of the group would need to be limited if it were to work effectively. I would suggest that our officials should meet shortly to consider the approach most likely to yield positive results.

7 Finally, there is an implied commitment to give the NEDC an opportunity to discuss the report. Clearly, that cannot be done until the autumn. But I see no need to hold up progress on that account.

8 I would be interested to have your reactions and those of colleagues. I am sending copies of this letter and the report to the Secretaries of State for Defence, Environment, Health, Energy and Transport, Sir Robert Armstrong and No 10.

Yours
Norman

NORMAN TEBBIT

JH1ACN

IN CONFIDENCE

PLEASE RETURN TO
CF
(S/S DTI to ChNEx 11/5)

BRITISH OVERSEAS TRADE BOARD

OVERSEAS PROJECTS BOARD

REPORT

of the

WORKING GROUP ON THE OVERSEAS ROLE OF THE NATIONALISED INDUSTRIES

London
February 1984

IN CONFIDENCE

OVERSEAS PROJECTS BOARD

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of the

NATIONALISED INDUSTRIES

February 1984

M H Ewbank CBE (Chairman)	Ewbank Preece Ltd
D A Holland	Balfour Beatty Ltd
T W B Sallitt	Hawker Siddeley Group Ltd

In Support:

A C Hutton	Department of Trade and Industry
K Inglis	Department of Trade and Industry
D J Miller (Secretary)	Department of Trade and Industry

REPORT OF THE WORKING GROUP ON THE OVERSEAS ROLE OF THE NATIONALISED INDUSTRIES

INDEX

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

OVERSEAS ACTIVITIES

1.1 Most nationalised industries have international subsidiaries offering a range of advisory services overseas. These subsidiaries are subject to statutory and financial constraints which limit their spheres of activity. But the private sector provides a full range of consultancy services embracing areas beyond the capability of the international subsidiaries of the nationalised industries.

Recommendation 1

The capability of the public and private sectors is complementary and the aim should be collaboration in the pursuit of business not competition. In this respect, the nationalised industries should concentrate upon those services which they are best fitted to undertake, such as operational studies, systems planning and training based on their experience, and leave the private sector to offer such services as financial justification studies, project planning, detailed project design and project management, and supervision.

1.2 The international subsidiaries are staffed by a limited number of professional managers and engineers engaged in marketing the services on a world-wide basis. Their strength lies in their ability to call upon the skills and experience of those managing and operating the service provided by the parent undertaking.

Recommendation 2

The industries should review their policies on secondment of staff overseas and on the terms granted. They should encourage more of their progressive, highly-qualified staff to accept a period on overseas work. It would be helpful if this could be recognised as a positive factor in career development and not as time spent outside the main career activity. Care should be taken to set appropriate terms for overseas allowances and remuneration taking account of commercial practice.

1.3 No evidence was found to support charges that international subsidiaries are unfairly subsidised, but their terms of reference and commercial objectives should be more precisely defined and publicised.

Recommendation 3

The international subsidiaries should continue to be required to operate within normal commercial objectives, but should be given clear guidance on the terms of reference and scope of their permitted activities.

PROJECT MANAGEMENT

1.4 The trend over the last decade for various reasons has been for nationalised industries to bring an increasing share of their major project work in-house. This has damaged UK capability to bid overseas, because of the lack of domestic reference for the engineering contracting industry. It is not practicable for the nationalised industries to assume a project leadership role overseas and the experience of private sector purchasers of major plant suggests that it would be in their commercial interest to contract out more domestic project work to main contractors. This in turn would certainly improve the UK's prospects on overseas projects, and create opportunities for savings in staff and establishments over a period.

Recommendation 4

Each of the nationalised industries should examine its approach to design and project management work taking into account the experience of the private sector, giving wide consideration to the national benefits which can accrue from contracting out a higher proportion of its requirements.

Recommendation 5

Each should also regularly monitor the balance between in-house capability and the use of outside resources and expertise.

PROCUREMENT

1.5 It is recognised that there are difficulties in reconciling domestic and international requirements and that the nationalised industries are beginning to respond to the 1982 White Paper on 'Standards, Quality and International Competitiveness'. Nevertheless they could do more to make products marketable overseas by fostering closer liaison with private consultants and suppliers, and by widening specifications to take greater account of costs and global market considerations.

Recommendation 6

In drawing up specifications nationalised industries should, in order to develop products and processes which can be more easily marketed overseas:-

(i) work more closely with private sector consultants;

and (ii) set up arrangements to ensure closer liaison with their suppliers;

Recommendation 7

In writing procurement specifications, nationalised industries should take steps to:-

(i) draw up performance as opposed to detailed product specifications;

and (ii) wherever possible, stipulate performance standards acceptable in overseas markets.

1.6 There appears to be some scope for nationalised industries to collaborate with suppliers in proving and, occasionally developing, new products and processes for export markets.

Recommendation 8

Nationalised industries should be encouraged to assist suppliers to introduce export products and processes by making available existing facilities for demonstrating and proving such equipment.

Recommendation 9

Nationalised industries should be encouraged to collaborate with suppliers in developing export products and processes, where the suppliers, (with the assistance of Government where appropriate), are prepared to support the costs incurred by the nationalised industries on activities which go beyond their own commercial needs.

INTRODUCTION

2.1 Following discussions on how the UK could best harness the extensive operating experience of the nationalised industries when bidding for project work abroad, the Overseas Projects Board set up a working party early in 1983 to examine this question. The working party's terms of reference were:-

> To examine the role of the nationalised industries in the overseas projects field and the impact of their domestic policies on UK export capability and to consider in particular:-
>
> (i) the nature of the contribution the nationalised industries can make in the overseas field;
>
> (ii) the scope for allowing greater participation by the private sector in project management and design work currently undertaken by nationalised industries on projects in the UK thereby enabling it to establish a domestic record to support overseas bids;
>
> (iii) how the nationalised industries could assist suppliers and manufacturers to develop internationally marketable products through their purchasing and project requirements and by other means.

2.2 The working party took evidence from:-

- trade associations, groupings and companies in the contracting and engineering consultancy sectors;

- private sector enterprises with substantial investment programmes involving major project work;

- government departments with sponsorship responsibilities for individual nationalised industries.

A list of the organisations which submitted evidence is given at Annex 1. The working party had discussions with the Chairman of the Nationalised Industries Overseas Group (NIOG), and it also considered the position of nationalised industries in some other countries involved in overseas project work.

2.3 The nationalised industries, both through their domestic and through their overseas activities, can exercise a significant influence on the UK's project capability. This influence is principally in those fields where they are the monopoly or dominant operators, and to an extent in other areas where their domestic policies affect the ability of the private sector to compete abroad. There are three distinct areas of potential influence:

(a) Overseas technical advice and assistance - in support of or in competition with the private sector.

(b) Domestic project management and design work related to their investment requirements - and the impact on the private sector's experience, track record and capability.

(c) The purchasing and procurement of equipment for their operating needs - and its effect on the exportability of British goods.

Each of these areas is examined below.

OVERSEAS ACTIVITIES

3.1 Although the principal statutory duty of most of the nationalised industries is to provide goods and services to domestic private or public users, most have developed an overseas capability, usually exercised through a separate subsidiary arm, which for convenience we shall refer to throughout this report as the "international subsidiaries". The main exceptions are those industries like British Airways whose market is international as well as domestic. A list of the main international subsidiaries is given in Annex 2. The services offered are based normally upon the operating experience and related activities of the main undertaking and cover such aspects as technical advice, operational management, commissioning, quality assurance and training. In the case of certain major industries, such as power generation, steel and railways, the stated range of services may extend to design and project management. However, because of the inherent limitations under which the international subsidiaries operate, notably as regards their ability to accept risk on their own account, such activities tend to be restricted in scope and to cover feasibility studies, preliminary planning and outline design rather than complete project management, including detailed design and supervision.

3.2 The international subsidiaries, even of the larger industries, tend to be small. Typically, they are staffed by a limited number of professional managers and engineers, who are principally engaged in marketing services on a world-wide basis. The capability of these organisations lies, however, not just in their permanent complement but in their ability to call upon the expertise and knowledge available from within the parent body. Having access to the resources of the parent industry represents a strength but having to rely upon it can also act as a limitation, since a potential conflict can arise between the objectives and the requirements of the domestic organisations and the international subsidiaries when they have to compete for the more talented and scarce specialists. Certain industries have responded well to overseas demands on their services. However, given that the primary duty laid upon the Boards is to maintain an efficient domestic service, and taking into account the difficulty of persuading key UK based career personnel to accept short and often inconvenient secondments abroad, it is not surprising that the international subsidiaries do not always appear to be successful in establishing a prior claim. This view was supported in the evidence submitted to the group in which some dissatisfaction was expressed about the commitment of the parent Boards to supporting overseas activities.

3.3 As the subsidiaries of statutory undertakings, the international subsidiaries have to accept a number of restrictions on their freedom of operation and in that respect, as in the scope of the services they can offer, they are in a materially different position from firms in the private sector which have greater opportunities to recruit and develop their range of expertise in depth in response to the demands of the market, to expand into other areas of commercial activity and, most important, to take risk on their own account. The limitations on the nationalised industry subsidiaries in part derive from their relationship with their parent organisations but more fundamentally, from the statutory and financial framework within which they, no less than their parents, are required to operate. The fact that the main Boards' borrowing requirements are stringently controlled and that during periods of financial restraint, the parent industries may find it difficult to cover their own investment requirements, unavoidably affects their ability to commit resources to a subsidiary activity which can contribute only at the margin to the efficiency of their main operations. That constraint, in itself, would be enough to discourage the main Boards from allowing their international subsidiaries to accept significant commercial risks. There is an additional and more formal reason. The Boards are under a statutory duty to maintain their basic services. It would therefore be contrary to their central responsibilities if they were to jeopardise their domestic operations by exposure to the possibility of substantial contingent liabilities, including civil damages, incurred on their overseas activities. It has been argued that this limitation should be eased to enable the international subsidiaries to expand their range of services and assume a full consultancy capability. We would not support such an approach. Ultimately the only solution would be for the government, on behalf of the taxpayer, to underwrite such risks on behalf of the industries. That, in our view, would be commercially unsound. Moreover, it is unnecessary. The private sector is geared to taking the major risks associated with consultancy, contracting or other forms of involvement in project work. To the extent that nationalised industry participation is required, contractual means exist to apportion the risks and liabilities, so that the industries need not be exposed to more than their appropriate and limited share.

3.4 Although the nationalised industries are precluded, by the terms of their operation as well as limitations imposed by resources and experience, from providing the full range of services offered by the private sector, their advice and assistance is much valued by overseas customers. NIOG's Annual Report for 1982/83 recorded that its members generated a turnover of £342 million from their activities abroad, representing an increase of £112 million over the results for 1981/82.

3.5 Despite the size of their turnover, the charge is sometimes made against the international subsidiaries that they are unprofitable or are subsidised by their parents and can thus afford to undercut the private sector where their fields of activity overlap. Against that, can be set a complaint that at least some of the international subsidiaries' services are too expensive and that they tend to offer over-generous terms to their domestic personnel posted overseas. Yet a third line of argument, which is sometimes developed, is that the UK nationalised industries should act as loss leaders, as it is alleged their foreign counterparts do, in order to open a market for British manufacturers and suppliers by offering cut-price feasibility studies.

3.6 We have come across no evidence that the nationalised industries do subsidise their overseas operations. It is firmly denied by NIOG and the industries themselves, who point out that the parent organisations could neither afford to support unprofitable activities of this kind, nor would wish to defend themselves against possible criticism by their sponsor Departments. That is not to say that all activities yield a full commercial rate of return, but we are satisfied that the intention in each case is, correctly in our view, that the international subsidary in question should operate commercially. We consider, nevertheless, that in this respect, as in others, the terms of reference and the commercial objectives of the international subsidiaries could be more explicitly and publicly stated. That is not only desirable in itself, but would serve to reduce the potential for friction between the industries and the private sector and improve the climate for collaboration which is necessary if the UK is to make the fullest use of its project capability.

3.7 We believe that the overseas activities of the nationalised industries, given the right direction and kept within appropriate limits, should be beneficial to the industries themselves, enabling them to earn additional revenue, to acquire knowledge of other countries' technical and operating experience, and to expose staff, whose careers would otherwise be confined to the UK, to a different commercial and professional environment.

While nationalised industries continue to have the main part, if not a monopoly, of operating experience in a number of major sectors, including electricity, gas, coal, steel, water, railways and airports, it is important from a national point of view that they should have the capacity and enthusiasm to collaborate with or offer services to the private sector in the planning and execution of overseas projects.

3.8 We would emphasise that the private sector, particularly if reinforced by wider experience as proposed in section 4, should be capable of carrying out the full range of tasks associated with major project work. There are occasions when an overseas client attaches value to the introduction of direct operating experience at an early stage in project development and also wishes to build up a reserve of trained personnel prior to commissioning. In both these areas, the participation and collaboration of the relevant nationalised industry can be instrumental in securing the main business for the UK. In a number of instances indeed a foreign client has insisted that the appropriate UK public sector body should be involved in a project, partly as a means of securing access to operating advice and training but partly on the assumption that such an involvement would afford an additional assurance of HMG's interest and commitment to success.

3.9 There are other ways in which the nationalised industries can assist the UK project export effort. The ready access which a number of industries have to their public utility counterparts in other countries can be helpful in a number of sectors in creating openings for business. Secondly, the importance of allowing prospective overseas customers access to nationalised industry operations was widely acknowledged in evidence. The existence of an international subsidiary can facilitate the demonstration of domestic plant or operations. The responsibility for making this operational experience available should, we believe, be accepted clearly by the parent undertaking itself, in recognition of its favoured monopoly status, and in no circumstances should denial of access be used as a means of reinforcing the position of an international subsidiary against UK private sector consultants or contractors. This we believe to be the position of the Boards concerned.

3.10 The development by the nationalised industries of the commercial and operating framework for overseas services appears to have been largely ad hoc, as can be seen from the comparison of the relevant statutory powers (where they exist) authorising these activities. As illustrated in Annex 3, these range from a specific, if still somewhat imprecise, authority on the one hand to an inferential reading of the Act setting up the main undertaking on the other. Similarly, despite a continuing debate about the role of the nationalised industries in the export field, there remain areas of uncertainty and a number of unresolved issues about the objectives, nature and scope of their overseas activities. We are not convinced that sufficient thought has been given to delineating and defining this area of activity.

3.11 We consider that it would be helpful, not only to the nationalised industries themselves but also to the project sector generally, if the government and the industries were to review the latter's overseas activities with a view to giving clear published guidance on the objectives to be adopted and on the basis on which services should be offered. With this in mind, and to avoid doubt about where we stand, we make a number of recommendations, based on our analysis of the position, which are intended to form the basis of the government/nationalised industry review:

Recommendation 1: The capability of the public and private sectors is complementary and the aim should be collaboration in the pursuit of business not competition. In this respect, the nationalised industries should concentrate upon those services which they are best fitted to undertake, such as operational studies, systems planning and training based on their experience, and leave the private sector to offer such services as financial justification studies, project planning, detailed project design and project management, and supervision.

Recommendation 2: The industries should review their policies on the secondment of staff overseas and on the terms granted. They should encourage more of their progressive highly qualified staff to accept a period on overseas work. It would be helpful if this could be recognised as a positive factor in career development and not as time spent outside the main career activity. Care should be taken to set appropriate terms for overseas allowances and remuneration taking account of commercial practice.

Recommendation 3: The international subsidiaries should continue to be required to operate within normal commercial objectives, but should be given clear guidance on the terms of reference and scope of their permitted activities.

DESIGN AND MANAGEMENT OF CAPITAL PROJECTS

4.1 Much of the evidence we collected concerned the way nationalised industries handle their major capital projects in the UK, and the impact of this on the private sector's performance overseas. In exploring this area, we focussed on two major project functions - design and management. By "design" we mean detailed engineering design as distinct from first stage conceptual design, and, in this context we define "management" as having responsibility for selection of major contractors and sub-contractors, procurement of hardware, control of interface, co-ordination of all inputs and day-to-day control of implementation.

4.2 We could not claim, in the case of each industry, to have established a complete picture of the way in which it has handled major capital projects. But the impression gained from those with long experience in these industries points to a discernible trend. In the early years of the main industries and up to the mid-late 1960s, the undertakings appear to have relied for the greater part of their design and project management work on private sector consultants and main contractors, the role of their own engineers and managers being largely confined to the formulation or agreement of specifications, participation in the adjudication of tenders and supervision and monitoring of the project during the implementation stage. Gradually, as internal design and engineering staff resources increased, the industries began to assume a greater responsibility for all aspects of detailed, as well as initial design, and for direct project management, using private sector consultants and contractors as sub-contractors. This pattern was mirrored in the development of the on-shore transmission and distribution network for natural gas and electricity, and in investment in power stations.

4.3 The reasons given for this change in approach are various. It is claimed, for example, that some projects require special skills and knowledge beyond the resources of the private sector. Although this might be true of certain highly specialised fields, it is a view strongly contested by the private sector who point out that, overseas, main contractors are involved in the full range of major development work including nuclear technology as well as airports, metro systems and power stations. Indeed, there is an element of self-fulfilling justification about such a claim by the nationalised industries; the more the industries assumed these responsibilities, the less able was the private sector to satisfy their requirements. Another reason given is that such work can more economically be kept in-house. That, we think, is open to question, even at the peak of an investment cycle. There is the added difficulty that the in-house resources are linked to one industrial sector and there is thus no opportunity for using a common resource to serve several markets which may not all peak or trough together. At any point in the investment cycle we would expect that normal commercial pressures would force private sector contractors and consultants to keep their overheads to a minimum, thus enabling them to offer competitive prices for similar work. It is also said that for safety reasons, certain work has to be retained in-house. We acknowledge that nationalised industries must keep close control over design standards and must be fully engaged in monitoring the implementation of projects. But there are few, if any, areas where private sector contractors have not proved capable of working to exacting, as well as economical, design standards when engaged on projects in such demanding markets as Hong Kong. We conclude that the industries behaved similarly to many large private sector undertakings during a period when work was relatively plentiful and financial and other pressures less than now - they allowed a trend towards in-house activity to develop, without looking sufficiently at the commercial and economic alternatives. Because of the expense of maintaining large design and engineering staffs during periods of relatively low investment, the pattern appears to be changing again. We welcome, for example, the award of the fourth Heathrow terminal to a lead private contractor and we believe that genuine efforts were made to put out as much as possible of the new Falklands airport to private sector consultants and contractors. The electricity, gas and water sectors also appear readier now than before to put out work to private firms and we would wish to give such developments every encouragement. However, we are conscious that a number of major industries still have sizeable design and engineering establishments and that the pressures on managers and boards to keep as much work in-house as possible is still strong. For instance the British Airports Authority is itself managing the extensions to terminal facilities at Gatwick, and we understand that the Authority is unlikely to contract out planned project work in the foreseeable future.

4.4 Whatever the reasons for maintaining project work in-house, the assumption by the nationalised industries of the main responsibility for detailed design and project management work has had a major and serious impact on the capability of the UK to bid for overseas projects. It has meant that in many sectors, including electrical power generation, airports and mass transit systems, no private sector consultants, main contractor or manufacturer, either separately or in conjunction, has been able to cite a major investment in which they have had the role of project managers. The shortage of domestic reference has placed the UK engineering contracting industry at a severe competitive disadvantage with its foreign rivals, notably American, Japanese, French and West German contractors who, either in their own right or through a closer association with their public sectors, have secured an impressive track record in such areas as power engineering, mining, railways, airports, ports and water.

4.5 One solution which has been proposed is, following the logic of retaining project management in-house, that the nationalised industries should assume an overseas project leadership role themselves. The example of the "SOFRE" in France or public sector contractors such as Snamprogetti in Italy are sometimes quoted as models. We do not consider that this approach, in the UK context, is practicable or indeed desirable. We are quite clear that within their present operating framework, the nationalised industries could not undertake a lead contracting role, or indeed provide the main design and project management component within a joint private and public sector effort, the main reasons being:

(a) The main responsibility of the industries is to provide an efficient service for domestic consumers; the addition of a major overseas dimension to their operations would entail a substantial change of direction and would give rise to conflicting calls upon resources and management which could not be satisfactorily reconciled.

(b) Under their present financial framework, the industries could not accept the large contingent risks associated with a major project role. Nor, for the reasons stated earlier, should the taxpayer be expected, even if willing, to accept the commercial and performance risks that would arise.

(c) The industries do not have readily available a sufficient number of the right personnel with an appropriately broad engineering and commercial background, conditioned by hard selling experience in highly competitive markets, to transfer to overseas project management work.

(d) It takes time to build up competence in project leadership, demanding, as it does, a blend of specialist skills and experience capable of harnessing a range of multi-disciplinary resources to deliver a completed, operational facility on time.

Our conclusion, taking into account the experience in France outlined in Annex 4, is that if the UK were to adopt a similar approach, it would require a full-blooded commitment. It would entail, for example, creating separate and substantial new public sector organisations with their own capital bases adequate to support the full range of project risks and liabilities. Senior personnel would have to be transferred from within the existing industries and reinforced with suitably qualified professional staff from the private sector with experience of a wide range of expertise gained in different industries. Some means would have to be found of reconciling the interests and priorities of the new public sector contracting organisations with their existing private sector counterparts.

4.6 The more the implications are worked out, the less plausible and possible the public sector route appears. That is without taking into account what is in our view the gravest defect of proposals of this kind, namely that we already have in the UK a number of strong, competitive risk-takign enterprises, which despite the handicap imposed by being denied access to key nationalised industry design and project management work, have yet managed to maintain an international reputation and record of success. The experience of West Germany and the US, also outlined in Annex 4, would suggest that there is another approach better suited to the UK commercial environment - leaving the private sector to take the lead overseas, while encouraging the nationalised industries to contract out a much higher proportion of their design and project management work than at present.

4.7 Although we are convinced of the importance of such a change of direction, the strengthening of the UK private sector project capability may not be regarded as a sufficient reason for instituting a substantial shift in practice in the public sector. Nor do we underestimate the problems, not the least social, which would face a number of industries which even now are finding it difficult to utilise fully their design and engineering teams.

Furthermore, we have to acknowledge that the immediate impact of the greater delegation of project work would not be great during a period when major investment in the public sector is severely constrained.

4.8 Despite the problems, we are sure that it is right now to examine the balance between the design and project management work performed in-house by the nationalised industries and that put out to the private sector. We are led to that conclusion, not simply because of the need to strengthen the UK's overseas project capability but because we believe that there is independently a strong economic and commercial case for the greater delegation of such activities. Whatever case may be advanced for the maintenance of extensive in-house resources, we, as managers, think it questionable whether it is likely to be in the commercial interests of the public undertakings to attempt to maintain a design and engineering capability sufficient, at the extreme, to handle all or the greater part of their project work. Our investigations into the practice of large private sector enterprises, investing in major capital projects, supports that view.

4.9 The main private sector enterprises we approached - BP, Shell, ICI and RTZ - all emphasised that they regarded it as crucial to their commercial operations to get the balance right between the use of in-house skills and bought-in expertise in the project field. Most, at an earlier period, had built up their internal resources but had been forced to reduce to what they regarded as the minimum level of in-house engineering in order to:

(a) match their resources to the fluctuations of the investment cycle;

(b) keep overheads at the lowest possible point;

(c) avoid the dangers of in-breeding and the narrowness of viewpoint and experience which result from a lack of interaction with outside professional engineers and designers. A number of those interviewed said that they had found that attempting to retain a major part of their design and engineering work in-house had resulted in more complex and more expensive solutions.

In essence, the commercial philosophy of such enterprises is a simple one - to retain a basic capability sufficient to carry out essential project related tasks but to transfer the problem of supporting overheads and the maintenance of teams of specialists to outside consultants and lead contractors. The result is one that should be of general benefit; not only do the purchasers limit their overheads, but consultants and lead contractors improve their work load and experience and, during a downturn in the investment cycle, they are normally better placed to shed staff or to find alternative outlets for their expertise, and are less likely therefore to be caught with the heavy burden of underutilised and expensive resources.

4.10 The approach to project management adopted by the major private sector enterprises also contains lessons for the public sector. The former regard the design and execution of a major investment as a joint effort with outside specialists. A typical pattern is as follows:

(a) the basic design concept, including outline specifications, is worked out by their in-house engineering resources;

(b) the project is contracted out in its entirety, either by negotiation or through competitive tender, to a company responsible for detailed design, the selection of sub-contractors and suppliers, co-ordination and overall control. (In a few cases, where difficult technology developed by themselves is involved, the investor may retain overall control);

(c) a restricted in-house project team is created to monitor the main contractor. When problems arise, the team is already sufficiently involved to assist the main contractor to overcome them or even, in the most extreme circumstances, to bring in another firm. At no point, however, does the project team assume responsibility for management of the project.

We can see no reason why the same approach should not serve the nationalised industries equally well or should not yield the same benefits of reducing overheads and the risk of being caught with excess resources during a downturn in the investment cycle, of creating broader engineering experience and of promoting a greater awareness among managers responsible for major investments of the market price for capital works. We would emphasise that greater reliance on external design and project management expertise need not diminish the industries' control over their projects. Indeed, by concentrating on getting what they want rather than performing all areas of work themselves, their actual control of key aspects is greater. They will wish and will need to have the capability to be involved in all stages from conceptual planning, through detail design to implementation and commissioning - but on a partnership basis, not invariably as the principal executor and manager of the work.

4.11 Our recommendations are:

Recommendation 4: Each of the nationalised industries should examine its approach to design and project management work taking into account the experience of the private sector, giving wide consideration to the national benefits which can accrue from contracting out a higher proportion of its requirements.

Recommendation 5: Each should also regularly monitor the balance between in-house capability and the use of outside resources and expertise.

SPECIFICATIONS AND STANDARDS

5.1 The nationalised industries also influence the UK's international competitiveness by the specifications they draw up and the standards they set for supply of equipment in their domestic operations. On this area of activity the evidence we collected was mixed. In some sectors the excellence of nationalised industries' standards was widely recognised overseas, and a helpful factor in securing export business. In others, standards and specifications appeared to be pitched at levels beyond the needs of customers in third world developing markets, where cheaper options were sought. As a result, UK suppliers, who were geared to the needs of nationalised industries at home, were losing business. Apart from the charge of over-engineering, our attention was also drawn to the fact that products developed solely to satisfy nationalised industries' needs seldom proved attractive overseas.

5.2 We appreciate that there is a genuine dilemma here. Quite rightly, procurement by the nationalised industries is directed primarily at their own specific domestic requirements; and most of our private sector respondents recognised that this had to be the nationalised industries' first priority. The extent of the problem varies from sector to sector. In some such as airports, where international standards apply, or offshore gas extraction, where new technology can be exploited worldwide, domestic and international demands are more easily reconciled. In others, where a specific type of natural resource dictates special-to-type plant and equipment as in the coal industry, or where a long-established utility has been progressively tailored over many years to specific domestic needs such as the railway network, the nationalised industries understandably find it more difficult to draw up specifications and develop products with good sales potential in overseas markets. Also there are sometimes compelling performance or safety reasons for adopting standards higher than current British standards.

5.3 This particular conflict of interests was recognised both in a recent report by an ACARD working group* and a 1982 White Paper on 'Standards, Quality and International Competitiveness'.≠ The ACARD report concluded that "public sector organisations should seek to meet their requirements with equipment that can be sold in international markets, even if this means some compromise over specifications". We think that this is a good starting point for the nationalised industries to adopt in developing their purchasing policies. We also welcome the general thrust of the 1982 White Paper and support its proposals, notably that there should be:

(i) "closer co-operation between the government and the BSI to develop British Standards which are of the required quality, <u>command respect in world markets</u> and are suitable for regulatory purposes and/or for public purchasing";

and (ii) "a much greater emphasis in public purchasing on linking requirements to existing standards rather than technical specifications particular to the purchasers".

* "Facing International Competition" by the Advisory Council for Applied Research and Development (ACARD).

≠ Cmnd 8621

In relation to these, we note with satisfaction para 2.4 of the White Paper, which states:-

> "The government will encourage other purchasing authorities (such as local authorities and nationalised industries) to participate fully in standards - making ...."

Moreover, we are encouraged to find that many nationalised industries are already acting in line with the White Paper policy, and are contributing to the promotion of better and more appropriate standards. British Rail, for one, have been progressively replacing their own standards with those of the British Standards Institution (BSI), though they, like other nationalised industries, sometimes operate outside the BSI system to produce their own specifications when these are urgently required.

5.4 Although the 1982 White Paper is stimulating some response, the evidence suggests that more could be done to attune nationalised industry specifications for new products and processes to international demand. In assessing the development of new plant and processes, the British Chemical Engineering Contractors Association, for instance, attaches considerable importance to the involvement of contractors' staff at an early stage in conceptual and detailed design, and sees a need for more systematic arrangements, broadly similar to those which existed in the 1950s to ensure that developments by nationalised industries are exploited overseas to best advantage. While acknowledging a certain degree of existing rapport with the nationalised industries, the British Metallurgical Plant Constructors'

Association suggests this might be reinforced by establishing an effective dialogue with British suppliers at the 'first thoughts' stage of a requirement. The British Electrical and Allied Manufacturers Association (BEAMA) sees effective collaboration between the private sector and nationalised industries in developing new products as particularly important, where most nationalised industries have in-house R & D resources and private sector supplies do not have equivalent access to relevant technology. One possible area of such collaboration suggested by BEAMA is improvement in the present transmission and distribution system for electricity supply. BEAMA believe that, though of limited economic benefit to the customer, such an improved system would provide an excellent shop window for overseas sales as well as yielding other national benefits in terms of employment and increased utilisation of existing capacity. In addition to consultations with suppliers, the evidence also indicated that a better appreciation of features with overseas appeal could be engendered both within the nationalised industries and amongst their suppliers through greater collaboration with private sector consultants in drawing up specifications. We think that more interaction between the nationalised industries and consultants in this area is likely to produce such a result, considering the latter's wide experience in international markets. We therefore recommend that:-

<u>Recommendation 6</u>: In drawing up specifications the nationalised industries should, in order to develop products and processes which can be more easily marketed overseas:

(i) work more closely with private sector consultants;

and (ii) set up arrangements to ensure closer liaison with their suppliers;

5.5 A consistent theme running through the evidence was that specifications adopted by the nationalised industries were too detailed, of too high a standard for either UK or overseas needs and too often needlessly different from what was available 'on the shelf'. So marked does the trend towards over-specification seem to be in certain areas, that some nationalised industries appeared to us to be straying inadvertently into a business quite different from their own ie that of the plant/equipment designer/supplier. Not only does this impose economic penalties on the nationalised industries themselves, but it places an onerous burden on suppliers, particularly when decline in public sector demand is hitting volume and has sharply reduced the share of their production going to nationalised industries. Unable to adjust rapidly to this situation because the bulk of their existing products are geared to nationalised industry requirements, suppliers are at a disadvantage when trying to capture new markets at home and overseas. Examples were submitted from a number of industries. In the gas industry several respondents detected a tendency within the British Gas Corporation to purchase equipment developed to its own specifications, rather than to buy what is commercially available, with the result that prices were unnecessarily high and suppliers had to manufacture to two standards to compete abroad. Similarly specifications adopted by the electricity supply industry were claimed to generate products, which are engineered to an unnecessarily high standard and are uncompetitive in third world markets. There was also widespread criticism of British Rail specifications for the same reason. We think that the evidence presents a strong case for the nationalised industries to re-appraise their policies on drawing up specifications both to reduce their own costs and staff effort and to strengthen their suppliers by improving the latters' sales prospects in other markets. We therefore recommend:-

Recommendation 7: In writing procurement specifications nationalised industries should take steps to -

(i) draw up performance as opposed to detailed product specifications;

and (ii) wherever possible, stipulate performance standards acceptable in overseas markets.

We realise that this recommendation is already an integral part of the policy embodied in the government's Public Purchasing Initiative, launched in 1980, but, although some progress has been made, we consider that nationalised industries could go a good deal further in this direction.

5.6 A more difficult problem for suppliers to nationalised industries in a monopoly user position can arise when an opportunity occurs to develop a new product or process for which there appears to be an overseas demand, but for which there is no requirement at home. This may happen for a variety of reasons eg wide differences in climate or operating environments. More often, the supplier's problem in such circumstances is to build up adequate user experience to back up launch of the product or process into overseas markets. Nationalised industries could help suppliers to bridge this gap by collaborating with them in proving new products and processes. Sometimes private sector manufacturers may need not only help to demonstrate new equipment for exclusive use overseas, but also assistance in developing it. For instance it is suggested that there is scope in the electricity supply industry for the nationalised industry and equipment suppliers to collaborate on adapting standard equipment for sale in export markets. Another example is drawn from the coal industry, where current boilers are designed to accommodate indigenous bituminous coal, to operate with high thermal efficiency and to provide high availability. A number of overseas territories have different coal types, such as the brown coals in Australia and lignites in Greece. While there is no need in the UK to develop specialised technology to deal with such fuel, lignite deposits in Northern Ireland do offer an opportunity to develop a plant which could be the foundation for future export plants utilising that type of fuel. These and other examples did persuade us that joint arrangements between nationalised industries and their suppliers for proving, and occasionally developing, 'export-only' products and processes will sometimes be justified. This could be done provided that suppliers, perhaps with assistance from government support schemes, are willing to support the extra costs incurred by the nationalised industries on activities which go beyond their own commercial needs. Accordingly we recommend that:-

Recommendation 8: Nationalised industries should be encouraged to assist suppliers to introduce new export products and processes by making available existing facilities for demonstrating and proving such equipment.

Recommendation 9: Nationalised industries should be encouraged to collaborate with suppliers in developing export products and processes, where the suppliers, (with the assistance of Government where appropriate), are prepared to support the costs incurred by the nationalised industries on activities which go beyond their own commercial needs.

LIST OF ORGANISATIONS FROM WHICH THE WORKING GROUP HAS RECEIVED EVIDENCE

(a) Government Sponsoring Departments:

Department of Energy

Department of Transport

Department of Trade and Industry

(b) Trade Associations:

Association of Consulting Engineers

British Chemical Engineering Contractors' Association

British Consultants Bureau

British Electrical and Allied Manufacturers Association

British Metallurgical Plant Constructors' Association

Electrical Cablemakers Confederation

Energy Industries Council

Engineering Industries Association

Export Group for the Constructional Industries

Process Plant Association

Railway Industry Association

Telecommunications Engineering and Manufacturing Association

Society of British Gas Industries

British Water Industries Group

(c) Companies in Engineering Contracting Industry:

Babcock International

British Pipeline Engineers and Contractors (BPEC)

Davy McKee

General Electric Company

Hawker Siddeley Power Engineering

Laing

Plessey Telecommunications

Sim-Chem

Standard Telephones and Cables

Taylor Woodrow Group

William Press Group

(d) Project Owner Companies in Private Sector:

British Petroleum

Imperial Chemical Industries

Rio Tinto Zinc

Shell

NATIONALISED INDUSTRIES' INTERNATIONAL SUBSIDIARIES RESPONSIBLE FOR OVERSEAS ACTIVITIES

Parent Organisation	International Subsidiary
British Airports Authority/Aeradio International	British Airports International Ltd
National Coal Board	British Coal International
Electricity Council	British Electricity International Ltd
British Gas	International Consultancy Service
British Steel Corporation	British Steel Corporation (Overseas Services) Ltd
British Telecom	British Teleconsult
Water Authority's Association	British Water International Ltd
British Rail	Transmark
London Transport	London Transport International

STATUTORY AUTHORITY FOR THE INTERNATIONAL SUBSIDIARIES OF THE NATIONALISED INDUSTRIES

BRITISH AIRPORTS INTERNATIONAL (BAI)

It is a limited company jointly owned by BAA and IAL (the latter being a subsidiary company of British Airways). British Airports International ultimately depends on section 2 of the Airports Authority Act 1975 which allows the Authority to provide consultancy services overseas, and on section 24 of the Civil Aviation Act 1980 which extends the Authority's powers to provide and assume management of any aerodrome outside Great Britain and provide services or facilities which are in the opinion of the Authority necessary or desirable for the operation of aerodromes outside Great Britain.

BRITISH ELECTRICITY INTERNATIONAL (BEI)

The only remit of the Electricity Supply Industry under the Electricity Act is to produce electricity in accordance with the best interests of the consumer. The only known statutory prohibition is not to engage in manufacture.

BEI's locus stems from the assumption that the company's consultancy work makes the manufacturers more healthy which is in the interests of electricity consumers through the provision of domestically produced plant, as opposed to imports.

BRITISH GAS CORPORATION

The Gas Act does not provide specific authority to undertake overseas consultancy. In cases of difficulty the Corporation consults the Secretary of State for Energy. The Gas Act prohibits the Corporation from investing overseas.

BRITISH RAIL

Section 50(7) of the Transport Act 1968 states:

> "Each of the Boards shall have power to provide for any person technical advice or assistance, including research services, as respects any matter in which the Board have skill or experience."

BRITISH STEEL CORPORATION

Substantially all the consultancy activities carried out overseas within BSC as a group are carried out by its wholly owned subsidiary British Steel Corporation (Overseas Services) Ltd (BSCOS), a company incorporated under the Companies Act. The company derives its powers from its Memorandum of Association. In this respect, these powers are in no way circumscribed by the Iron and Steel Act 1975.

To a much smaller extent, technical advisory services within their own field are provided overseas by Redpath Dorman Long Ltd (RDL) and by BSC itself trading as Pipework Engineering Developments (PED - a part of BSC Tubes Division).

RDL is also registered under the Companies Act and derives its powers from its Memorandum of Association in the same manner as BSCOS.

BSC derives its powers in relation to the technical advisory services provided by PED under the provisions of section 3(b) of the Iron and Steel Act 1975, in terms of a general authority issued on 26 March 1970 by the Minister of Technology in pursuance of section 2(i) of the Iron and Steel Act 1967.

BRITISH TELECOM

The British Telecommunications Act provides under clause 2(4):

> "The Corporation shall have power to furnish any authority or person outside the UK with assistance (whether financial, technical or of any other nature) if in its opinion the consequences of so doing will enure for its benefit."

NATIONAL COAL BOARD

The NCB is authorised under Section 2 of the National Coal Board (Overseas Activities) Order, 1975, to provide technical advice and services in relation to mining activities outside Great Britain.

WATER AUTHORITIES ASSOCIATION

British Water International Ltd (BWI) is a wholly owned subsidiary company of the Water Authorities Association and was established in July 1983 as a successor to the National Water Council International Advisory Service to manage and co-ordinate the overseas consultancy activities of the UK Public Sector Water Industry. The powers of the Water "Authorities" to act overseas are defined in Section 5 of the Water Act 1983, which reads:

"5 (1) Subject to subsection (2) below, a Water Authority or statutory water company may provide for any person outside the UK advice or assistance, including training facilities, as regards any matter in which they have skill and experience; and for the purposes of this section, statutory water companies shall have the same powers as Water Authorities ....

(2) The power conferred by subsection (1) above shall not be exercised except:-

(a) with the consent in writing of the SoS; and

(b) if the exercise of that power involves capital expenditure ...... or the guaranteeing .... of any liability, with that consent given with the approval of the Treasury."

PRACTICES OF NATIONALISED INDUSTRIES IN SELECTED COMPETITOR COUNTRIES

As part of our investigation we looked at the project role of nationalised industries and like utilities in a selection of competitor countries. The three we chose, because of ease of access to relevant information, were the USA, West Germany and France. The situation in the first two is similar in that few nationalised industries exist. Those enterprises which are publicly owned, such as the Tennessee Valley Authority in the USA and the Bundesbahn and Bundespost in West Germany, tend to keep most of their project design and management in-house, (though this is not so true of NASA). However, the great majority of utilities in both these countries are in private hands, and they contract out a large degree of project management and design in much the same way as private sector 'owners' in the UK. Consequently private sector contractors bidding overseas have ample opportunity to build up an impressive track record in their home markets. In France nationalised industries are more numerous. In most cases French nationalised industries act themselves as maitre d'eouvre on major projects. Electricite de France, Gaz de France and Charbonnages de France design and build their own new plant with the help of sub-contractors as necessary. There are limitations therefore to the experience French private sector companies can build up on domestic nationalised industry projects. However, the experience gained on design and management of nationalised industry projects in France is channelled overseas through the Sofre organisations which have contributed significantly to the success of French companies in securing export contracts. The Sofres are consultancy companies, which operate mainly outside France. They are partially owned and largely staffed by French public sector bodies, and, while they seldom lead a consortium bidding for a turnkey contract, they frequently have a co-ordinating role within such consortia. More detailed information about the handling of projects by the particular enterprises whom we consulted in the three countries examined is given below.

USA

1.1 Tennessee Valley Authority (TVA)

TVA relies primarily on in-house staff for project development and management. It has about 2,000 engineers on its staff and rarely uses outside consultants. TVA has not experienced slack investment periods in recent years - when it does, the agency moves engineers to other jobs or lays them off. Capital projects undertaken include dams, multiple use reservoirs, nuclear and hydroelectric power plants, pollution and environmental research facilities.

1.2 Port Authority of New York and New Jersey (NYPA)

NYPA uses in-house resources almost exclusively and has around 450 engineers on its books. When the work load is too great, the Authority will take on contractors from among the top 30 engineering firms in the USA. It has not had a slack investment period in recent years.

1.3 National Aeronautics and Space Administration (NASA)

For most construction projects, NASA contracts design services to the private sector, but project management is normally undertaken by in-house resources.

However, for major construction projects in excess of several million dollars, or when project activities are at a peak, the management function is contracted to the private sector or other government agencies (eg US Army Corps of Engineers). In the case of major systems projects (eg Apollo or Shuttle launch vehicles), mission analysis and requirements definition is carried out in-house, while design and development is normally put out to contract. NASA has approximately 11,000 scientists and engineers out of a total work force of 22,000 employees. Amongst NASA contractors, who also operate overseas are:- Bechtel, Polote Corporation, Sverdrup and Parcell, Blount Bros, Burns and Roe, Ralph M Parson.

1.4 Washington Metropolitan Area Transit Authority

This authority often gives a large share of its project design and management work to outside contractors, but maintains in-house capability to monitor the project.

WEST GERMANY

2.1 Deutsche Bundesbahn (DB)

DB does not let out any turnkey contracts. In all projects DB has to undertake a certain amount of the design and management to meet its safety and other statutory responsibilities. Design and management of some of the more specialised projects, such as marshalling yards under construction at Munich, is carried out mostly by in-house resources. On a project like the new Nuremburg metro, some of the design is contracted out to the private sector. Design and construction of rolling stock is carried out by private sector firms, though in the case of locomotives, which use a $16^2/_3$ cycle system, there is not much direct application to overseas markets. Planning of signal boxes is done mostly by Siemens. Out of a total work force of 308,000, DB has the following engineering strength -

Building Work	- 580 with university qualifications 6,700 trained in polytechnics
Mechnical/electric	- 500 university 3,900 polytechnic training

2.2 Bundesministerium fur das Post-und Fernmeldewesen (Bundespost)

Bundespost does not let out turnkey contracts. Planning and design is done in-house by local area units, of which there are 110 in the Federal Republic. Projects are then broken down into work packages and let out to private contractors.

FRANCE

3.1 Charbonnages de France (CdF)

The Bureau d'Etudes of CdF's Lorraine Division is responsible for conceptual and detailed design of all CdF projects. CdF also use in-house resources to manage their projects. For instance new surface facilities and an associated power station at Gardonne in the south is being designed and managed by CdF itself. The Nord Division, centred in Lille, is running down fast and is expected to cease operations this decade. In response to that situation, the

Chief Engineers Unit of Nord Division is diversifying into design for civil engineering projects such as hospitals.

3.2 Electricite de France (EdF)

To a very large extent, EdF use in-house resources to design and manage their investment projects. This is particularly true of nuclear power stations, sixteen of which they have now built to the same design. In response to government pressure, there has been considerable concentration of suppliers in the last decade, leaving only one contractor on the nuclear side (Framatome) and two in turbine generation (CM and Alsthom).

3.3 La Societe Nationale des Chemins de Fer Francais (SNCF)

SNCF does not let out turnkey projects. It maintains close monitoring of all areas of work and is responsible for overall design and management. Formerly, SNCF participation extended into quite detailed control of most aspects of the projects. However, in some parts of the high speed train project to Lyons (TGV), SNCF adopted a different approach. For instance, for the supply of rolling stock, which has always been contracted out to the private sector, SNCF selected a lead contractor, Alsthom, which was entirely responsible for detailed design and management of that area of the work.

3.4 Sofrerail

Sofrerail was set up in 1957 and is owned by SNCF (33%) and seven nationalised French banks (66%). It is a railway consultancy company operating overseas. The range of its activities includes economic studies, technical studies, feasibility studies, organisation and management studies, technical assistance, supervision of the execution of projects and staff training. It has a staff of 150-250, who are seconded on a volunteer basis from SNCF. There is no difficulty in recruiting staff from SNCF. The Deputy General Manager of SNCF is President of Sofrerail. Sofrerail is presently working on projects in over forty different countries. It is fulfulling a supervisory management role on a number of these, such as a railway project in Mozambique where it is co-ordinating a consortium of French, Portuguese and Canadian firms.

CONFIDENTIAL

File

MR PALMER

FROM: J GIEVE
8 March 1984

cc Chancellor
Financial Secretary
Mr Bailey
Mr Monck
Mr Burgner
Mr H Evans
Mr Scholar
Mr Culpin
Mr Hart
Mr Houston
Mrs Lomax
Dr Rickard
Mr Robson
Mr Shields
Mr Stibbard
Mr Turnbull
Mr R Wilson
Mr Grimstone

NATIONALISED INDUSTRIES: QUARTERLY MONITORING REPORT (DECEMBER 1983)

The Chief Secretary has approved with questions? the memorandum and report attached to your minute of 6 March. These are now being circulated. However, he has noted that it is a long time since the end of December, a number of the figures are already out of date, and the paper can hardly the basis for any action. He has asked for a note answering two questions:

(i) Can the report be produced more quickly?

(ii) If not, is there a case for abandoning the Monitoring Report for the December quarter?

JG

JOHN GIEVE

CONFIDENTIAL

c/o

NBPM

AT

20/2

01 211 6402

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chamber
Parliament Street
LONDON
SW1P 3AG

20 February 1984

Dr. Nigel

CORPORATE PLANNING IN THE NATIONALISED INDUSTRIES

Thank you for your letter of 19 December, proposing new guidelines for corporate planning procedures.

I find the guidelines basically acceptable and agree that you should inform the NICG of them. I have seen the comments from Norman Tebbit, Nicholas Ridley and George Younger, and endorse their emphasis on the need for flexibility in interpreting the guidelines and timetable.

I am copying this letter to the recipients of yours.

Yours

PETER WALKER

NAT IND

Policy

Pt 8

20 JAN 1984

File HO

10 DOWNING STREET

From the Private Secretary

13 February 1984

CORPORATE PLANS

During the next few months a number of corporate plans will be coming to Ministers for decision. The Prime Minister has been considering what information is needed for these discussions. She would like to have a table which sets out how much the Government is putting into the various industries. I attach a pro forma of a table which would show not only how much is being sought for the industry in question, but also how this compares with the corresponding figures shown last year and how much is being provided for all the industries for which your Secretary of State is responsible. If, after studying it, you can suggest any improvements, I would be happy to receive them.

The Prime Minister has also commented that all too often the picture shown is one of a requirement for increased support in the first year coupled with a strongly improving position in later years. She hopes that the figures for the later years of the corporate plans will be scrutinised very rigorously.

ANDREW TURNBULL

Callum McCarthy, Esq.,
Department of Trade and Industry.

GOVERNMENT SUPPORT[1]: INDUSTRIAL CORPORATIONS AND COMPANIES

		1983-4	1984-5	1985-6	1986-7	£ Million Total 3 Forecast Years 84-87
BSC	Last Year's Plan					
	This Year's Plan					
BL	Last Year's Plan					
	This Year's Plan					
RR	Last year's Plan					
	This Year's Plan					
BS	Last Year's Plan					
	This Year's Plan					
PO	Last Year's Plan					
	This Year's Plan					
BTG	Last Year's Plan					
	This Year's Plan					
TOTAL	Last Year					
	This Year[2]					

1. Government lending, grants, subsidy payments, plus government guaranteed borrowing.

2. 1984 Corporate Plan where available, otherwise 1983 Corporate Plan.

CONFIDENTIAL

POLICY UNIT
10 February 1984

PRIME MINISTER

AT 10/2

THE DTI AND INDUSTRIAL STRATEGY

Successful economies depend on a thriving competitive enterprise sector. The good companies survive and prosper, the bad companies die quickly - their assets and people absorbed by others better able to use them.

For years the DTI has tried to stop business Darwinism from flourishing in the UK. It spends £1 billion directly on industrial and regional support. In addition, along with the Departments of Energy and Transport it sponsors nationalised industries who require £2.6 billion in external finance, two-thirds of which takes the form of government grants.

UK companies (excluding North Sea Oil operations) will pay £3.3billion in mainstream corporation tax in 1983-4. Government is therefore taxing the successful to keep in a state of half life the aging dinosaurs of our industrial economy.

Over the next two months, Cabinet committees will at last see the corporate plans of British Shipbuilders, Harland and Wolff, BSC, BL and Rolls Royce. The usual pattern of deterioration in prospects for the immediate years followed by the enticing prospect of profits and cash generation three years away will be evident.

The BL Corporate Plan for the three years 1984, 1985, 1986, shows a halving of profits compared with last year's version (£108m compared to £219m). Cash outflow (all for HMG to guarantee/subsidise) is now forecast at £204m, double the £102m forecast last year.

Rolls Royce's plan now forecasts £52m of total profits for the next three years, little more than one-third of last year's forecast of £139m. RR has made some modification in accounting presentation: 1984-6 figures are understated on a comparable basis.

BSC has still to produce its plan.

In total BL, BSC, British Shipbuilders and Rolls Royce will require around £1,600 million in three years and will lose £325 million on their current forecasts.

CONFIDENTIAL

Hi-tech business can also become dangerous. Government has been notably bad in the past at picking winners (eg Nexos, Concorde, 38 out of 40 projects approved for launch aid in aerospace). DTI nevertheless favour stepping up hi-tech aid where less government spending and involvement would help the workings of the market.

What can be done about it?

If you are concerned about the cash consumption of these businesses and about the way in which every year the good news is deferred again, you could:

Agreed

1. When receiving an industrial corporate plan seek a brief note on total industrial support which summarises increases and decreases on all companies and corporations over the last year: this would set the individual negotiation in context.

2. Ask DTI to implement a few crucial painful decisions early in the life of this Parliament. BSC will need to close Llanwern or Ravenscraig in addition to running down smaller plants. BL should come out of the trucks business as an urgent priority. Several shipyards have to close and others will have to contract.

Agreed

3. Ask for realistic plan figures for years 3-5 of each plan.

Agreed

4. Reinforce the message of splitting up these large corporations and selling off parts wherever possible.

Agreed

5. Continue scepticism about the DTI's ability to pick hi-tech winners.

There is a danger that left unquestioned the DTI will carry on as if they still have to run an industrial strategy, in the wrong belief that public money expended saves jobs. In practice it destroys them by holding up the essential process of structural change.

John Redwood

JOHN REDWOOD
10 February 1984

NBPM AT 26/1 cc NO

SCOTTISH OFFICE

WHITEHALL, LONDON SW1A 2AU

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

January 1984

Dear Nigel,

CORPORATE PLANNING IN THE NATIONALISED INDUSTRIES

Thank you for your letter of 19 December proposing new guidelines for corporate planning procedures.

I agree that it is useful to establish a framework of the kind you suggest, though I agree with Norman Tebbit and Nicholas Ridley, whose comments I have seen, that to achieve the best results we must be prepared to operate the arrangements flexibly.

For the Scottish Electricity Boards the guidelines do not match the existing timetable for the production of corporate plans. The real need, however, is to ensure that we have a proper and timely opportunity for collective ministerial consideration of the Boards' performance and the strategic options facing them, and I have made arrangements, with which I understand your officials are broadly content, to ensure this. For the Scottish Transport Group we can comply with the guidelines provided they are operated with a sensible degree of flexibility.

I am copying this letter to the recipients of yours.

Yours ever,

George.

NDPM AT 17/1

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
LONDON SW1H 0ET

16 January 1984

Dear Norman

NATIONALISED INDUSTRY REFERENCES TO THE MMC

We have already decided that "an aspect of British Rail" should be included in the 1984 programme of MMC references. The purpose of this letter is to seek agreement that we should refer the British Rail Property Board, and announce this firmly, along with the rest of the programme, next week.

I discussed this yesterday with the Chairman of BR. Bob Reid would welcome an MMC study of the Property Board. It is one of the largest property organisations in the country and administers an estate of some 190,000 acres. In recent years they have - at our instigation - been pursuing a policy of rapid sale of non-operational property, and have contributed nearly £200m to British Rail from that source since 1979. But we shall be coming to the end of that phase in the next year or two, as the bulk of the non-operational portfolio is sold, and the emphasis will need to switch to maximising the commercial return on the property that the railway needs to retain in any case, for its own purposes. In particular this will involve exploiting to the full the potential for commercial development of stations, including joint ventures with the private sector for offices associated with station sites, and the introduction of much more private participation in station catering and other retail outlets.

The reference of the Property Board to the MMC would chime very well with the objectives we set Bob Reid in October. We told him that:-

> "I should welcome proposals for more private sector finance and participation in the development of stations..... The Board should continue to pursue a vigorous policy of property development and disposal."

So an MMC reference this year could give us a lot of help in stimulating and in evaluating the Board's efforts in these fields.

If colleagues are content I hope that the reference of "British Rail Property Board" can be included in the announcement of the programme early next week.

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

Yours ever
Nicholas

NICHOLAS RIDLEY

NAPM AT 13/1 CNO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

12 January 1984

Dear Nigel

Thank you for your letter of 19 December seeking agreement to the revised guidelines and timetable on corporate planning procedures for the nationalised industries.

I am sure that it is right that we should try to achieve a proper review of each industry, with proper feedback to the industries, before we come to the annual public expenditure decisions, and I will certainly do my best to secure just that for my industries, subject as you say to the inevitable flexibility we must have in individual cases.

My only reservation is on the point, which your officials already know, that it would not help this if we were to try to insist that the industries must submit their own Corporate Plans by the end of March. This may not be at all compatible with their own planning cycles, and indeed they might well think it rather demanding of us if we give them only four months to prepare their corporate plans after setting their EFLs and investment authorisations, and then take eight months ourselves before we come to the next round of decisions. If the NICG were to ask us to look again at that point, I certainly think it would be right to agree. But I do not think that that should prevent us adhering to the timetable for our own internal purposes, because I and my officials should be sufficiently in touch with the industries to provide the necessary input to our discussions at the right time.

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

Yours ever
Nicholas

NICHOLAS RIDLEY

NBPM AT 9/1 cc NO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

JF5235

Secretary of State for Trade and Industry

9 January 1983

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

D Nigel.

CORPORATE PLANNING IN THE NATIONALISED INDUSTRIES

Thank you for your letter of 19 December and the enclosed guidelines on corporate planning procedures.

2 I believe that the guidelines are basically acceptable and I am content for you to inform the NICG of our intentions. I am glad that you have stressed the need for the guidelines to be interpreted as flexibly as possible with regard to the particular problems of each industry. This will be particularly important for British Telecom, where I anticipate that this year the corporate planning process will be dominated by the over-riding need to prepare BT for privatisation in the autumn. You will also appreciate that, for an industry such as BSC, whose plans are subject to alteration arising from national and international market developments, close adherence to the timetable is likely to prove unrealistic.

3 More generally, I should like to consider the way in which we have monitored the progress of nationalised industries between annual reviews. With the recruitment of better chairmen and management for a number of our nationalised industries, and the provision of better management information there may well be scope to cut back on some of the detailed work and second guessing that was previously necessary - throughout the year.

4 I am sending a copy of this letter to the recipients of yours.

Yours
Norman

NORMAN TEBBIT

Prime Minister (2)
To read and note in conjunction with papers on shipbuilding aid? AT 4/1

c BI

RESTRICTED

— See Nat Industries Shipbuilding Part 5

cc Mr. Redwood

MR. TURNBULL

MANUFACTURING NATIONALISED INDUSTRIES

I am minuting you (for your information only) to alert you to problems which will arise from the imminent arrival of some weighty - and costly - corporate plans from the manufacturing public sector.

As I see it, Government will need to consider, between mid-January and the end of February, no fewer than seven plans or major projects: British Shipbuilders, Harland and Wolff, Rolls Royce Ltd, Shorts, launch aid for British Aerospace for the Airbus A320, BL, and British Steel Corporation.

Although the plans themselves, or updates thereof, are still coming through, it is already apparent that the aggregate financial claims will be in the region of £2.5-£3 billion. That sum, though high, neither buys eventual viability nor protects against further loss of employment. We have spent roughly £4.5 billion since 1979 and have witnessed 220,000 job losses over the same period.

The problems and opportunities confronting each of these major businesses are sufficiently diverse to make it essential for each set of proposals to be taken on its own merits. But that carries with it the danger of decisions being made piecemeal. DTI in their "sponsorship" role have a highly developed talent for fragmenting large problems and costs into a greater number of smaller ones and getting their solutions put through in genuine or contrived haste. INMOS was a good recent example. If E(NI) or E(A) take a soft line with one or more parts of the early plans (eg British Shipbuilders) it will be very difficult to take a harder line later with British Aerospace or BL.

Presentationally, there are some deep holes for Government to fall in. How many yards should BS close? Should Ravenscraig now close? Should Leyland Vehicles close? Can we afford to offer launch aid to Rolls Royce as well as to British Aerospace? Our presentation (say) on NHS expenditure, on the abolition of the Mets, or on the conveyancing monopoly is not an encouraging backdrop for these industrial issues, which are just as complex and as emotive.

I will be preparing a brief on each of the plans/projects as they come forward to E(NI) or E(A), but I did feel it important to precede the

/individual

individual briefs with an overall concern, particularly about the amounts of money and pr at stake. Commercial considerations will be prominent in our briefs, but my colleagues and I will devote particular attention to how decisions might be presented.

ROBERT YOUNG
4 January 1984

file

10 DOWNING STREET

From the Private Secretary

28 December, 1983

cc CDLO D Trans
CO DTI
DM SO
DN DOE
CS, HMT

NATIONALISED INDUSTRY REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION (MMC): 1984 PROGRAMME

The Prime Minister has seen and noted the Chancellor's minute dated 22 December on the above subject.

(David Barclay)

Miss M. O'Mara
HM Treasury

CONFIDENTIAL

bc N. Owen

JT

cc DOE DN
SO DM
DTI COCO
DTrans CO
CS, HMT

10 DOWNING STREET

From the Private Secretary

23 December 1983

CORPORATE PLANNING IN THE NATIONALISED INDUSTRIES

The Prime Minister has seen the Chancellor's letter to the Secretary of State for Trade and Industry of 19 December. She is content with the procedures set out linking the establishment of long-term objectives for nationalised industries, the preparation of agreed strategies, the examination of corporate plans and the establishment of EFLs.

I am sending copies of this letter to the Private Secretaries to Members of E(NI) and to Richard Hatfield (Cabinet Office).

(ANDREW TURNBULL)

John Kerr, Esq.,
HM Treasury.

See & noted

Prime Minister (2)

To note

DWB 23/12

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

PRIME MINISTER

NATIONALISED INDUSTRY REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION (MMC): 1984 PROGRAMME

This minute is to report the outcome of an ad hoc meeting which I chaired yesterday, in the absence of a convenient meeting of E(NI), to settle the 1984 programme of nationalised industry references to the Monopolies and Mergers Commission. You will recall that Norman Tebbit put round proposals at the end of October for a programme of six studies, but a difference of view emerged on whether the Scottish Division of the British Airports Authority should be included as proposed.

2. We agreed that the best course was to make an early announcement of the five references on which there was agreement and to look again later in the year at a possible sixth candidate. By the summer, some of the uncertainties which caused us to hesitate over referring the Scottish airports should be out of the way. We will know, for example, the outcome of any appeal on the question of a BMA licence to fly from Glasgow to New York and we will know whether efforts currently in hand to promote Prestwick have borne fruit. Although still politically difficult, a study of the Scottish airports in the second half of 1984 could give useful objective evidence which could contribute to any view which we needed to take in due course on the future of Prestwick.

3. Nick Ridley will also be considering if there is any scope for other studies within the British Airports Authority, in the light of his wider thinking about future policy on airports.

In addition, we agreed that we should try to cast the net more widely to take in some of the other and smaller public bodies which are covered by Section 11 of the Competition Act 1980. The programme has tended to concentrate so far on the major nationalised industries and there should be room for both categories.

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

Margaret O'Mara

N.L.
22 December 1983
(approved by the Chancellor and signed in his absence)

10 DOWNING STREET

From the Private Secretary

(2)

Prime Minister

To note proposed timetable integrating

(i) objectives agreed with Chairmen

(ii) strategy

(iii) annual corporate plan

(iv) Investment and Financing Review at the end of which the EFL is set.

Agree endorse these procedures

AT 22/12

Yes MT

Not Exp
Bol

10 DOWNING STREET

Prime Minister

In total nationalised industry EFL's are projected to undershoot by £ 66 million in 1983-84. This is the result of offsetting changes, mainly

NCB £ 215m overshoot -
British Shipbuilders £136m overshoot -
ESI £ 172m undershoot -
BT £ 104m undershoot. -

AT
20/12

CC CST
FST ✓ NO
Mr Middleton
Mr Bailey
Mr Anson
Mr Battishill
Mr Culpin
Mr Grimstone
Mr Houston
Mr Pirie
Dr Rickard
Mr Robson

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

19 December 1983

Mr R Wilson
Mr C Palmer
Mr Lord
Mr Portillo

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
LONDON SW1

Dear Norman

CORPORATE PLANNING IN THE NATIONALISED INDUSTRIES

At E(NI)(83)6th Meeting we agreed that in future discussions of the nationalised industries we should concentrate on the major strategic issues for the industry concerned and we asked officials to consider how the arrangements for collective Ministerial discussions of the nationalised industries might be improved. The Official Committee on Nationalised Industry Policy (NIP) subsequently carried out a review and its results are summarised in the enclosed guidelines.

I know we are all anxious to ensure that the corporate planning procedures we apply to the nationalised industries are as streamlined as possible and avoid any unnecessary bureaucracy. The guidelines aim to secure an annual collective review of each industry based on a corporate plan produced by the industry and a performance review prepared by the sponsor Department. If there is a need to alter the strategic direction of an industry, the review will concentrate primarily on this aspect.

The underlying intention of the corporate planning procedures is to allow us to understand and control the industries as businesses. I am sure it makes sense to complete this process before annual decisions are taken on public expenditure and the timetable attached to the guidelines has been drawn up with this in mind. I think it is helpful to have a yardstick of this sort, although of course I accept that both the timetable and the guidelines will need to be interpreted flexibly in the light of the circumstances of individual industries.

The Nationalised Industries' Chairmen's Group (NICG) have a continuing interest in corporate planning arrangements and it is one of the subjects on the agenda for our January dinner with them. Officials have had some informal contact with the NICG about the guidelines but there has been no recent formal exchange of views. Since the guidelines represent a streamlining of present procedures rather than a radical recasting, they will, I trust, be accepted by the industries, albeit reluctantly. I am anxious that the new arrangements should be implemented quickly and would therefore like to tell the NICG of our intentions as soon as possible, provided you and other colleagues are content.

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

Yours ever

Nigel

NIGEL LAWSON

NATIONALISED INDUSTRY PLANNING

Guidelines

Sponsor Ministers are expected under existing arrangements to agree broad long-term objectives with the Chairmen and Boards of their nationalised industries. These objectives will be mainly qualitative, should be consistent with the Board's statutory duties and will provide a basis for any financial targets and performance aims. Such objectives have already been agreed for a number of industries.

2. These objectives have to be translated into an agreed strategy in consultation between sponsor Ministers and industry Boards. Normally the strategy will require discussion by Ministers collectively, initially and whenever important changes are being proposed. Sponsor Departments and industries will need to consider each year whether the existing strategy is still appropriate or whether alternative strategic options should be explored. This might conveniently be done in the Autumn, but the precise timetable will depend on the nature of the issues involved and the work already done on them. If a review of stretegy is indicated, the resulting paper for Ministers should set out any options for achieving the objectives and identify the matters for collective decision.

3. The industries will prepare annually new or updated Corporate Plans and submit them to their sponsor Ministers normally no later than early March each year although the exact timing will depend on industries' individual planning cycles. These Plans should be consistent with the agreed strategy. They should summarise the main developments since the preceding Corporate Plan, and describe and quantify as far as possible expected future business developments. The Plans should normally span a 3-5 year period.

4. As background to the industries' Corporate Plans, officials in sponsor Departments should review each year the performance of each nationalised industry and produce a summary suitable for consideration by Ministers.

5. The outcome of the work described in paragraphs 2-4 above will be a review each Spring of an industry's past performance and expected future development. If major strategic issues need to be settled, the review should concentrate primarily on this aspect. If the previous strategy remains appropriate the review will focus on the implications of the Corporate Plan which (together with the review of performance) should be summarised by sponsor Departments and circulated to Ministers. This can be either for collective discussion or cleared in correspondence depending upon the importance of the industries and the issues involved. The entire process should be completed in time to influence the annual Investment and Financing Review which is carried out from May to October.

6. All papers prepared for Ministerial discussion or consideration should be crisp and sharply focused. They should propose the major points which are to be conveyed to the industry concerned.

7. The attached Annex indicates the inter-relationship and timing of the various elements in the planning cycle. Although the intention would be to conform to this timetable so far as possible, it is recognised that in practice Ministers' discussions about particular industries may take place at other times. The system will therefore need to be operated flexibly.

ANNEX A

TIMETABLE

Timing	Activity
As agreed for each industry	Sponsor Ministers and Boards consider whether existing strategy is still appropriate. If changes seem indicated, review of strategy commissioned.
January-March	Industries submit Corporate Plans to sponsor Ministers (incorporating if appropriate a review of strategy).
March-June	Performance Reviews and Corporate Plans considered by sponsor Ministers. Summaries circulated to Ministers for collective discussion in important cases. Outcome communicated to industries.
April/May	Investment and Financing Review material submitted.
August/September	IFR material updated if appropriate.
July-October	IFR decisions taken by Ministers.
November	EFL for coming year announced in Autumn Statement. External financing baselines for Years 2 & 3 of IFR communicated to industries.
December	Investment allocations for Years 1, 2 & 3 of IFR communicated to industries.

4.40

cc NO

NBPM
AJ 9/12

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

8 December 1983

The Rt. Hon. Norman Tebbit MP
Secretary of State for Trade and Industry

Dear Norman

NATIONALISED INDUSTRIES REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION (MMC)

You wrote to me on 2 December about the composition of the 1984 programme of nationalised industry references to the MMC.

Since E(NI) is unlikely to meet before Christmas, I am prepared to chair a short ad hoc meeting as you suggest. My private office will be in touch shortly to arrange a date.

I am copying this letter to the Prime Minister, the Secretaries of State for Transport and Scotland, the Chief Secretary and Sir Robert Armstrong.

Yours
Nigel

NIGEL LAWSON

Nat Ind Policy Pt 8

NDPM AT 8/12 CC N.U.

SCOTTISH OFFICE
WHITEHALL LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1

8 December 1983

Dear Nigel,

NATIONALISED INDUSTRIES REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION

I have belatedly received Norman Tebbit's letter to you of 2 December, about the proposal to refer the Scottish Division of the British Airports Authority.

I shall be glad to meet with colleagues and discuss this issue, if that is deemed to be necessary. I attach a paper which I would have been submitting to E(NI) and which sets out my views in greater detail.

I fail to see why Norman attaches such importance to including this proposed reference. If there are no better candidates at the moment to replace the Scottish Division of BAA then surely the rest of the programme could be announced and further time taken to examine other possibilities.

I am copying this letter to the Prime Minister, and to the Secretaries of State for Trade and Industry and Transport, the Chief Secretary and to Robert Armstrong.

Yours ever,

George.

CONFIDENTIAL

BRITISH AIRPORTS AUTHORITY - REFERENCE TO THE MONOPOLIES AND MERGERS COMMISSION (MMC)

Memorandum by the Secretary of State for Scotland

1. It may assist our discussion if I set out briefly my reservations about subjecting the Scottish division of the British Airports Authority to a Section 11 reference at the present time.

2. I am in no doubt that these references are a most valuable weapon in our struggle to secure greater efficiency in the nationalised industries. The MMC Report on Caledonian MacBrayne has assisted me greatly in securing improvements in the running of the shipping activities of the Scottish Transport Group. I welcome the decision to include the Group's bus operations in the 1984 programme; I would like one of the Scottish Electricity Boards to be examined in 1985. I have sought to include these references in the programme because they offer real possibilities of significant efficiency gains and because they will generally assist my control of the nationalised industries for which I am responsible.

3. That, I suggest, is the basis on which all the candidates for referral to the MMC should be selected. If we commit ourselves slavishly to a set programme of references irrespective of need and without taking account of other considerations we run the risk of devaluing the Section 11 procedure. The proposed reference of the BAA is a case in point. It is the Authority's "turn" for a reference in 1984 but the need to allow senior management to devote their attention to preparation for privatisation argues against requiring them to deal with a reference at the present time. However, the desire to achieve a full programme of references and to include a BAA one has led to the proposition that the Scottish Division of the

Authority should be subjected to scrutiny. In my view, this is a misuse of the valuable MMC resource. The Scottish Division of the BAA has been selected not primarily because of concern about its efficiency but because a slot had to be filled.

4. While I accept there is probably room for improvement in aspects of many nationalised industries' activity it seems doubtful whether BAA's Scottish Division is a prime target. If there are spare resources available in the MMC for 1984, it is difficult to believe that more profitable work could not be found for them. Although the Scottish Airports are still short of the target we have set them of breaking even, their trading loss of £3.3m in 1982/83 was a significant improvement on the loss of £8.5m in 1979/80. As has been pointed out in earlier correspondence, the loss stems largely from causes outwith local management control. While it is difficult to compare performance at the Scottish Airports with the very different London and South-East Airports it is significant to note that while staff costs per terminal passenger at the South-East Airports increased by 11% between 1980/81 and 1982/83 the increase at the Scottish Airports over the same period was only 5%*. In short, it seems clear that BAA's Scottish Division are making determined efforts to improve efficiency and that an MMC reference at this time could distract them from that primary objective.

5. It would also detract from the efforts to promote Prestwick. The Scottish Division is currently engaged on a series of sales missions to North America to promote the use of the Airport. Given their limited resources an MMC reference would inevitably divert effort from this exercise. However much more significantly, to refer the Scottish Division while the promotion of Prestwick is still underway would be interpreted in Scotland as a deliberate attempt by Government to undermine the future of Prestwick and would certainly have the practical effect of starting yet again the speculation about the airport's future. As recently as March this year the then Secretary of State for Trade and I agreed, in responding to the report of the Scottish Select Committee on Prestwick, that frequent reviews of the lowlands airport policy could only prejudice the chances of making it work and pointed out that ill-founded suggestions that the policy was about to be changed had undoubtedly harmed Scotland's overall civil aviation interests during the recession. A section 11 reference now would inevitably leave

* Source BAA Annual Reports and Accounts 1980/81 and 1982/83

us open to the charge (which our political opponents would be quick to exploit) that despite our recent reaffirmations of commitment to keeping Prestwick and despite our support for the BAA led initiatives to develop traffic there we had already decided to close the Airport.

6. I am well aware that the CAA's decision on a route licensing application, which will be announced shortly, may in any case generate its own pressures for a review of the lowland airport policy. But that is no reason why Government should at its own hand stimulate such pressure, in contradiction of its own recent pronouncements. If CAA grant the licence and BAA appeal, the Secretary of State for Transport (in his appelate function) might be embarrassed by the concurrent progress of an MMC investigation, given the public interpretation that will be put on the motives for the reference.

7. My view is therefore that to include the Scottish Division of the BAA in the 1984 programme would cause political difficulty out of all proportion to the efficiency improvements it might yield and would certainly not be justified simply in order to achieve a full programme of six references in 1984.

8. I recommend that colleagues agree that the proposal to include the BAA's Scottish Division in the 1984 programme should be dropped and that unless an alternative presents itself which merits early examination we either settle for a programme of five new references in 1984 (which would in any case be an improvement on this year's performance), or seek in the course of next year to bring forward one of the references currently planned for 1985.

SCOTTISH OFFICE

10 DOWNING STREET

Prime Minister (2)

SEE S/S DTI to OM/EX 2/12

To note this disagreement between colleagues and the steps being taken to resolve it.

SS/TI
SS/Emp } favour subjecting Scottish airports of BAA to MMC
CST

Chancellor of the Duchy
SS/Scotland } against
SS/Tsp

You are recorded as in favour, but subject to views of colleagues.

AT
5/12

[illegible]

CEAO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

JU97
Secretary of State for Trade and Industry

CONFIDENTIAL

2 December 1983

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

D Nigel,

NATIONALISED INDUSTRIES REFERENCES TO THE MONOPOLIES & MERGERS COMMISSION (MMC)

I wrote to you as Chairman of E(NI) on 27 October with my proposals for the 1984 programme of nationalised industry references to the MMC.

2 Following correspondence and a discussion I have had with George Younger, the issue of the inclusion of the Scottish Division of the British Airports Authority remains unresolved. I had hoped we should be able to discuss it in E(NI) next week and the text of the short paper I should have tabled is attached. However, as you know, that Committee is now unlikely to meet until the New Year.

3 I am therefore writing to ask you to convene and chair a brief ad hoc discussion between George Younger, Nicholas Ridley, Peter Rees and me so that we may settle this one outstanding point and clear the way for the early announcement of the 1984 programme.

4 I am copying this letter to the Prime Minister, the Secretaries of State for Transport and Scotland, the Chief Secretary and Sir Robert Armstrong.

Y—
Norm

NORMAN TEBBIT

NATIONALISED INDUSTRY REFERENCES TO THE MMC:
1984 PROGRAMME

The Government has publicly stated a target of making up to six nationalised industry references to the Monopolies and Mergers Commission in any one year. I see strong political arguments for meeting that target to the full. We need to show that we are maintaining effective pressure on nationalised industries to improve efficiency especially against the background of the St John Stevas Bill.

2 I have reached agreement with colleagues for a programme of five references for 1984. I propose that the sixth reference should be an efficiency audit of the Scottish Division of the British Airports Authority. The Division makes a trading loss and gives rise to the concern that its airports (Aberdeen, Prestwick, Glasgow and Edinburgh) might not be as efficiently managed as those in the South East.

3 The Secretary of State for Scotland objects on the grounds that it would revive speculation about Prestwick's future which would be damaging to current efforts to turn its fortunes round. Although an application to operate transatlantic flights out of Glasgow entails public debate about the future of Prestwick, we should not, in his view, voluntarily compound the difficulties. He also regards the Scottish Division as too small an issue to which to devote MMC time and questions whether there should be so prominent a Scottish component in the rolling programme.

4 The early privatisation of the BAA is a factor. Other aspects of the organisation are arguably either too sensitive or too demanding of senior management time to refer. In my view that is not true of an early reference of the Scottish Division. By enabling inefficiencies identified to be remedied in good time, it would serve to reassure prospective

investors and help, not hinder, privatisation.

5 In short, I am convinced that it is a worthwhile subject for investigation and that we should not be deflected from submitting it to efficiency audit and thereby meeting our full target for 1984.

6 I seek the Committee's agreement to an early announcement, including the BAA Scottish Division, in the terms annexed.

Department of Trade and Industry
November 1983

ANNEX

DRAFT ANNOUNCEMENT OF 1984 PROGRAMME OF NATIONALISED INDUSTRY REFERENCES TO THE MMC

Arranged Question

To ask the Secretary of State for Trade and Industry if he will report progress on the rolling programme of references to the Monopolies and Mergers Commission of nationalised industries.

Answer

This year, reports have been published on Caledonian MacBrayne; the National Coal Board, the Yorkshire Electricity Board and the Civil Aviation Authority's air traffic control services.

The Commission is currently investigating the costs and efficiency of London Transport's bus maintenance operations; the South Wales Electricity Board and the letter post in Inner London, Cardiff, Glasgow and Belfast.

I have concluded that it would be inappropriate to proceed with the planned enquiry into British Shipbuilders' merchant shipbuilding activities. It would have come at a time in the current world recession when many yards are clearly working below capacity, and in such circumstances an investigation would not have been helpful.

During 1984, I intend to refer the Scottish Division of the British Airports Authority; the Yorkshire Water Auhority; an area electricity board; the counter services of the Post Office; the bus operations of the Scottish Transport Group and an aspect of British Rail.

Terms of reference will be announced as each reference is made.

NAT. IND. Policy Pt 8.

2 DEC 1983

CONFIDENTIAL

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

PS/Secretary of State for Trade
and Industry
1 Victoria Street
LONDON
SW1H OET

16 November 1983

NBPM

AT 17/11

Dear Private Secretary

My Secretary of State wrote to yours on 10 November about Nationalised Industries References to the Monopolies and Mergers Commission.

As relayed to your office on the telephone on Monday, the last sentence of this letter should be deleted. I am sorry for this error and hope it has not caused you any inconvenience.

Copies of this letter are being sent to the Private Offices of E(NI) members.

Yours sincerely

Andrew Melville

ANDREW MELVILLE
Private Secretary

Nat Ind Policy

Pt 8

17 NOV 1983

12 1 2 3 4 5 6 7 8 9 10 11

CNO

NDPM

MJ

14/11

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
LONDON
SW1H QET

14 November 1983

Dear Secretary of State,

NATIONALISED INDUSTRY REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION

Thank you for your letter of 27 October to Nigel Lawson on the programme of references of nationalised industries to the Monopolies and Mergers Commission.

It is disappointing that British Shipbuilders should have to be dropped particularly after we had agreed and announced its inclusion. Although in present circumstances I must reluctantly accept that they should not now be in the 1983 programme, I am anxious that we should keep to the target of 6 references per year. These references to the Monopolies Commission make an important contribution to our efforts to tackle inefficiences in the nationalised industry sector.

I am glad to see a full programme of references for 1984. I have noted George Younger's reservations about the inclusion of Scottish Airports and Arthur Cockfield's comments on the possible implications for privatisation. In my view the proposed study would be well worthwhile and could lead to improvements in efficiency that would help rather than hinder subsequent privatisation. It would be wrong to exclude an industry simply because it was a candidate for privatisation. Indeed I can see some value in demonstrating to prospective investors that the necessary action is being taken to correct any inefficiences prior to privatisation.

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

yours sincerely,

PETER REES

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

NAT. INDUSTRIES
Policy, Part 5

14 NOV 1985

CNO

AT 14/11

2pp

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

01-211-6402

The Rt Hon Norman Tebbit MP
Secretary of State for Trade
and Industry
1-19 Victoria Street
London
SW1H OET

14 November 1983

NATIONALISED INDUSTRY REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION

Thank you for sending me a copy of your letter of 27 October to Nigel Lawson.

I am content with the inclusion of an area electricity board in the 1984 programme of references. I would like to consider how best to make use of this reference when we have the MMC report on the South Wales Electricity Board, which I understand should be available in January.

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

PETER WALKER

NAT INDUSTRIES: Policy Part 8

14 NOV 1983

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

CE NO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

NBPM

AT 14/11

The Rt Hon Norman Tebbit MP
Secretary of State for Trade
and Industry
1 Victoria Street
London
SW1H OET

10 November 1983

Dear Norman

NATIONALISED INDUSTRIES REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION

In view of George Younger's strenuous opposition to a Section II reference of British Airport Authority's Scottish Division to the MMC I think I should make my own position clear.

I share Tom King's reluctance to expose any part of BAA's activities to the MMC whilst we and BAA's senior management are engaged in deciding how best to privatise the Authority. Tom King was quite rightly concerned that the Scottish Airports might not be as efficiently managed as those in the South East, and to that end a reference would have been useful. But I think that neither he nor I would go as far as describing them as being "loosely managed". Despite the poor utilisation of capacity, the Scottish airports as a group do make a positive contribution to the Authority's cash flow.

On balance, I should prefer not to have a BAA reference in 1984. But if E(NI) colleagues to whom I am sending a copy of this letter take the view that we should have one, then, like Tom King, I would accept a reference of the Authority's Scottish Airports, which would be less of a distraction to the Authority's senior management than other possibilities.

I will pursue the possibility with Norman Payne.

Yours ever
Nicholas

NICHOLAS RIDLEY

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

CONFIDENTIAL

c. NO

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

01-212 3434

NBPM AJ 10/11

My ref: J/PSO/16216/83

Your ref:

November 1983

Dear Norman,

NATIONALISED INDUSTRY REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION

Thank you for the copy of your letter of 27 October to Nigel Lawson.

I am content with a water industry reference. We intend the Yorkshire Water Authority to be included in the programme and we have been discussing coverage and timing with the new Chairman. My officials are ready to discuss terms of reference with yours.

The timing could be affected by the proposed reference of the BAA's Scottish Division which I believe should go ahead for the reasons you give in your letter. There would be difficulties in bringing the Yorkshire reference forward from its present March slot.

I am copying this letter to recipients of yours.

Yours ever

Patrick

PATRICK JENKIN

The Rt Hon Norman Tebbit MP

10 NOV 1983

NAT. INDUSTRIES

Policy Part 8

3 November 1983

MR MOUNT

MR TURNBULL

I spoke today to Jim Driscoll, the Director of the Nationalised Industries Chairmen's Group.

He said that they were close to agreeing a paper which would tackle the problem of what moves the industries were making to improve their driver for greater efficiency. Their proposals are likely to centre around the appointment of an audit committee with a majority of non-executive directors on it, specifically charged with the task of

(a) seeing a general VFM audit is conducted as well as the financial regulatory audit; and

(b) commissioning individual studies of areas that arouse concern.

Meanwhile, the progress of implementing such a system voluntarily is gathering momentum. British Gas have set up their Efficiency Studies Unit; British Rail have an audit committee under Posner, charged with value-for-money duties; and Ian MacGregor has introduced such a system not only at British Steel, but also at the National Coal Board.

We should welcome these proposals and give every encouragement to the development of a proper efficiency audit capacity within the nationalised industries themselves.

JOHN REDWOOD

cc NO

NBPM at present
AT 3/11

Chancellor of the Duchy of Lancaster

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

3 November 1983

cc E(NI)
S.R.A.

Dear Secretary of State,

NATIONALISED INDUSTRY REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION

Thank you for copying to me your letter of 27 October to Nigel Lawson.

I must say that I share George Younger's reservations about a reference of the Scottish Division of BAA to the Monopolies Commission. It is I would suggest less than fair to describe BAA as a "loss making and loosely managed organisation". It isn't. BAA as a whole makes substantial profits. Prestwick is admittedly making losses but the reasons stem largely from causes outwith management. There is also the factor that BAA is a prime and early candidate for privatization - with the full support of the Chairman and the Board - and I wonder whether a Monopolies Commission investigation would not obstruct that.

Yours sincerely,

Alex Galloway.

COCKFIELD
(Approved by the Chancellor
of the Duchy of Lancaster
and signed on his behalf)

The Rt Hon Norman Tebbit MP
Secretary of State for Trade
and Industry
Department of Trade and Industry
1 Victoria Street
London SW1H OET

NAT IND
Policy Pt 8

- 3 NOV 1983

E NO

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister (2)

Agree allow Ministers concerned to resolve amongst themselves?

AT 2/11

CONFIDENTIAL

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry
1-19 Victoria Street
LONDON
SW1H OET

2 November 1983

Dear Secretary of State

Yes mt

NATIONALISED INDUSTRY REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION

I refer to your letter of 27 October.

I am entirely content with the proposed reference during 1984 of the Scottish Transport Group's bus operations.

I am however not at all content with the proposal to refer the Scottish Division of the British Airports Authority. Your letter records that fact, but otherwise fails entirely to do justice to the arguments set out in my letter of 10 October. I repeat these now, for the benefit of the wider audience.

Such a referral would be bound to be interpreted in Scotland as a deliberate threat to the future of Prestwick Airport, and would certainly have the practical effect of re-opening yet again all the speculation about the airport's future. This would be quite counter-productive to the efforts that are now under way to turn Prestwick's fortunes round. It is true, as you hint, that the policy for the Scottish Lowland Airports is bound in any case to be a matter for public debate in view of the public hearing that the CAA is to hold later this month into British Midland Airways' application to operate transatlantic flights from Glasgow. But that is no reason for adding to the difficulties through decisions which are within our own control - particularly since we ourselves (I and your predecessor as Secretary of State for Trade) deplored the climate of uncertainty around Prestwick in our response earlier this year to the Select Committee on Scottish Affairs.

I recognise that these arguments would have less force if the Scottish Division of BAA was indeed, to use your words, "loss-making and prima facie loosely managed". It does admittedly make a trading loss. But it is moving towards financial break-even in accordance with the target Government has set it. I do not know what evidence there is of loose management: no doubt the BAA, like all of us, could do better. But I do not think there is any prime facie case for devoting scarce MMC time to this small matter.

The truth is that BAA was put into the Section 11 programme. It was then realised that BAA Headquarters would have enough on their hands in preparing for privatisation. An investigation of the Scottish Division has been proposed out of undue concern to keep BAA in its place in the programme, and to keep up the quota of six references for the year. I do not think this is the best way to manage this programme. As I said earlier, I also think it will look distinctly odd to be devoting so much of MMC's restricted capacity for Section 11 investigations, to Scotland.

I think this proposal should be dropped.

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

Yours sincerely,

Approved by the Secretary of State
and signed in his absence

Nationalised Ind : Policy towards Nat Ind Pt 8

CONFIDENTIAL

file Lb

10 DOWNING STREET

From the Private Secretary

31 October 1983

NATIONALISED INDUSTRY REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION

The Prime Minister has seen your Secretary of State's letter to the Chancellor of 27 October. Subject to the views of colleagues, she is content with the programme of references proposed, in particular dropping British Shipbuilders from the 1983 programme and including the Scottish Division of BAA in the 1984 programme.

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

ANDREW TURNBULL

Callum McCarthy, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

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Lancaster

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1-19 VICTORIA STREET
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TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU718
Secretary of State for Trade and Industry

27 October 1983

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Prime Minister (1)

Agree this programme, subject to colleagues? In particular
Yes (i) dropping BS in 1983
Yes (ii) including Scottish Division of BAA in 1984?

AT 28/10

m.

Dr Nigel,

NATIONALISED INDUSTRY REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION

I am writing to consult you and colleagues about the 1984 programme of references of nationalised industries to the Monopolies and Mergers Commission for efficiency audit.

1983 Programme

2 I should perhaps first bring you up to date with progress in carrying out the 1983 programme which Arthur Cockfield announced on 9 March. Since then, the South Wales Electricity Board and London Transport's Bus Maintenance operations have both been referred.

3 The next in line for reference this autumn was the merchant shipbuilding activity of British Shipbuilders. Cecil Parkinson concluded that it would be pointless to go ahead with an investigation of British Shipbuilders at present and I fully endorse that conclusion.

4 The immediate priority for the new Chairman of BS and his senior management must be preparation of the revised Corporate plan, which we are to consider before the end of the year. I am not willing to impose on him and his senior management at this juncture the additional work inevitably entailed in any external scrutiny of the organisation's costs and efficiency. Furthermore, labour productivity in the yards is currently distorted as work is artificially spun out pending the decisions on the future of individual yards that will follow our consideration of the new corporate plan. An MMC efficiency audit conducted at a time when the work pattern is known to be distorted by these factors would

not provide a sensible basis on which to press for productivity improvements in more settled operating conditions. Finally, I am concerned not to supply unnecessary ammunition to those in the European Community hostile to the provision of special assistance to BS.

5 For all these reasons, I do not see any sense in making the planned reference in present circumstances and I therefore intend to postpone it. I also think there is too much uncertainty over BS's future to be able to judge now when it might sensibly be referred to the Monopolies Commission, and thus how long the postponement might run. I suggest we review the situation again next year.

6 I have naturally considered whether the gap in the Commission's workload might be made good by bringing forward one of the scheduled references on which some advance work had been done, including the essential first step of sounding out the Chairman on the idea of a reference. The next in line after BS was the Post Office, and that investigation is going ahead later this month.

7 Following that, we had pencilled in the British Airports Authority, to which I shall return, but a quick reference this autumn to fill the BS gap was not acceptable. BAA was to be followed by a water reference but, with the changes this autumn in the industry's boards resulting from the Water Act, the necessary preliminary soundings could not reasonably get off the ground in time for a reference before the New Year. That applies a fortiori for references pencilled in for later in 1985. I have therefore concluded that there is no available reference to substitute for the BS investigation this autumn.

8 Some of the shortfall in the MCC's workload will however be made good by the Post Office reference mentioned above. It will examine the costs and efficiency and quality of service of the letter post in Cardiff, Belfast and Glasgow; review progress in Inner London since the MMC reported in 1980; and consider in depth the letter mechanisation programme. That is a major exercise which will occupy more MMC resources than recent investigations and may well take until the middle of next year to complete. Both the Chairman and I are confident that, like the 1980 study, it will produce worthwhile results.

1984 Programme

9 The main unresolved issue for 1984 is whether an aspect of the British Airports Authority should be the subject of the first reference. Tom King was prepared to pursue with the BAA Chairman the possibility of a conventional efficiency audit of the loss making Scottish Division, but George Younger is unhappy with that proposal mainly on the grounds that it would renew damaging speculation about the future of Prestwick.

10 I do not believe we can afford for primarily presentational reasons to exempt loss making and prima facie loosely managed organisations from external scrutiny of their costs and efficiency. A report pointing to ways in which the operation could be run more efficiently and cost consciously could only be helpful to us and to BAA in the debate on the future of the Scottish airports which, as I understand it, is bound to revive for external reasons. My own view therefore is that a conventional efficiency audit of the Scottish Division of BAA should be the opening reference of 1984.

11 Agreement has been reached at official level and I propose that the programme thereafter should comprise

- A water authority
- An area electricity board
- The Post Office's counter services
- The Scottish Transport Group's bus operations
- An aspect of British Rail.

12 I hope you and the other members of E(NI) will be able to agree to my proposals by 11 November, so that I can announce the programme for the whole of 1984 later that month. I shall bring forward my proposals for the first half of 1985 in the New Year.

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

Yours
Norman

NORMAN TEBBIT

e

CONFIDENTIAL

VC

File

10 DOWNING STREET

From the Private Secretary 5 September 1983

The Prime Minister has now seen your Secretary of State's minute of 30 August about the Chairmanship of the Scottish Transport Group.

Mrs Thatcher has agreed that Mr. William Stevenson may be re-appointed as proposed by Mr. Younger.

I am copying this letter to Margaret O'Mara (HM Treasury), Dinah Nichols (Department of Transport), Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

(TIM FLESHER)

Muir Russell, Esq.,
Scottish Office.

CONFIDENTIAL

NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

CONFIDENTIAL

30 August 1983

Prime Minister

Yes md

Prime Minister:
Agree to Mr
Stevenson's reappointment
JC 31/8.

CHAIRMANSHIP OF THE SCOTTISH TRANSPORT GROUP

1. The current appointment of the Chairman of the Scottish Transport Group (STG) comes to an end on 31 December 1983. He is Mr William Stevenson. I appointed him in 1980, with your agreement, for an initial three year period, and his performance in the post has been more than satisfactory. He is 62 years old and is willing to continue. I propose to re-appoint him for a further three years and I seek your agreement to this.

2. The Scottish Transport Group is a nationalised industry constituted under the Transport Act 1968. Its main activities are the provision of bus services throughout Scotland (except in the four cities) through its subsidiary the Scottish Bus Group, and the provision through Caledonian MacBrayne of the main West Coast shipping services. The Group has some ancillary interests, the most significant of which is the road haulage company, MacBrayne Haulage. The Chairmanship is part-time with a commitment of 2½ days per week and attracts a salary of £18,700. The Group has a full time Deputy Chairman and Managing Director and nine part-time non-executive Board Members.

3. In the period ahead there will be a continuing need to sharpen up the business orientation and performance of STG whose thinking is inevitably still characterised to some extent by conventional public sector attitudes. The Chairman must also show a good understanding of the Government's general policy towards nationalised industry and particularly be willing to countenance the possible privatisation of some of the Group's activities. He needs also to maintain good relations with the local authorities on whose support many otherwise uneconomic rural bus services depend and he must be able to present the Group's activities well in public. A particular requirement will be a commitment to putting right the deficiencies in Caledonian MacBrayne's ferry services which were recently identified by the Monopolies and Mergers Commision: a good start has already been made on this.

4. Mr Stevenson trained as a design engineer and worked initially in his family milling business becoming eventually Scottish Director of Rank Hovis MacDougall. He was in recent years Master of the Merchant Company of Edinburgh, and spokesman on transport for the Scottish Council (Development and Industry). He was also, until very recently, Chairman of Gleneagles Hotels which took over three major Scottish Hotels from British Rail. He remains Chairman of a major Edinburgh retailing business and a Board Member of Mackintosh, the furniture manufacturers and has a number of other manufacturing commercial interests in the UK and overseas. He has a very good private sector business record. Mr Stevenson was first choice from among the candidates available for appointment in 1980.

5. Since 1981 STG has performed reasonably well. It has consistently met its financial targets and economies and greater efficiencies have been achieved within the Bus Group with the implementation of SCOTMAP (a procedure for analysing bus networks and devising the most cost-effective way of meeting consumer preferences). Improvements in ferry services have been less conspicuous, but in any case the way is now open for improvements here by following through the recommendations of the Monopolies and Mergers Commission. Mr Stevenson's own performance so far has been good. He has represented the Group well in public, and internally he appears to have provided the required leadership within the Board. He seems to have been particularly effective in making the organisation more customer-orientated and in improving staff planning. In general he has shown a good awareness and understanding of Government policy and, in response to specific soundings, he has confirmed that he is generally in tune with our policy on privatisation.

6. I think Mr Stevenson is a sound Chairman who merits a second term and his experiences so far should allow him to cope well with the issues ahead. I propose to invite him to serve for a further period of three years from 1 January 1984. I would be very grateful to have your agreement. Sir Robert Armstrong and Mr Middleton have indicated that they are content.

7. I am sending copies of this minute for information to Nigel Lawson, Tom King, the Chief Whip and Sir Robert Armstrong.

G.Y.

KT

010

X ref please

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

26 August 1983 Question

W Ricketts Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Mr Ricketts

In his letter of 3 May attached. Jonathan Spencer asked Departments to keep you informed of potentially controversial foreign purchases by nationalised industries.

Although major controversy is most unlikely, you may like to know that the National Bus Company (NBC) have recently taken steps to acquire 12 continental luxury coaches. Six Daf/Berghof single deckers have been ordered because of delivery problems from British manufacturers, and 6 Volvo/Jonckheere double deckers because they are of a low height specification not currently available in this country.

These purchases represent only a very small proportion of NBC's 1983 vehicle intake of about 635 vehicles. Nearly all the remainder will be manufactured in this country, reflecting the very close relationships between NBC and a variety of UK suppliers.

High specification luxury coaches have been until recently a definite gap in the UK product range. But several manufacturers (including Leyland, Metro-Cammell Weymann and Hestair Dennis, and the body builders Plaxtons and Duple) have now moved into this market, with active encouragement from NBC. As a result, NBC expect as a general rule to meet their future needs for vehicles of this type from UK sources, although there may still be a limited number of ocassions where they find it necessary to purchase specialist vehicles from abroad.

If you would like any more information, please let me know.

I am sending a copy of this letter to Jonathan Spencer at Trade and Industry.

Yours sincerely
Andrew Melville

for MISS S FAULKNER
Private Secretary

COMMERCIAL MANAGEMENT IN CONFIDENCE

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

Handling of Work on Nationalised Industries following Disbandment of the Central Policy Review Staff

The Prime Minister has seen your minute of 21 July. She is sceptical about the need for the Economic Secretariat of the Cabinet Office to do any more on this matter than they do already. As regards business advice, the Prime Minister has noted that the Chancellor of the Duchy of Lancaster, who has substantial business experience, will be able to look at these matters from a central position and advise his colleagues on them. This should be sufficient, when taken with the advice available from the sponsoring Departments and the advice available to each member of the Committee from his own Department, including the advice from the Policy Unit in No. 10, which has been strengthened in this area.

F.E.R.B.

25 July, 1983

COMMERCIAL MANAGEMENT IN CONFIDENCE

I see no need for

PRIME MINISTER

such an arrangement. Any advice should be available to the sponsoring dept. In Cabinet we already have

HANDLING OF WORK ON NATIONALISED INDUSTRIES FOLLOWING

DISBANDMENT OF THE CENTRAL POLICY REVIEW STAFF

the Chancellor of the Duchy.

I have not been able to discuss with Ferdie Mount the attached submission from Sir Robert Armstrong since Ferdie has now gone on holiday. But I suspect that if we appoint a retired senior businessman as part-time adviser in the Cabinet Office on Nationalised Industries, we will have too many fingers in this pie. You already have Lord Cockfield, who is an experienced businessman, to look at these matters; and in the Policy Unit you will have a strengthened team including David Hobson and John Redwood as well as Nick Owen. Do you need yet another consultant in the Cabinet Office?

Agree that:-

No (i) the Nationalised Industry work previously carried out by the CPRS which does not require business expertise should be taken over by the Economic Secretariat under Peter Gregson;

(ii) that we retain the services of David Green, attached to the Economic Secretariat, for a few months; but - if he wishes

(iii) we should not ✓ engage a retired senior businessman as a part-time adviser in the Cabinet Office?

F.E.R.B.

22 July 1983

010

Ref. A083/2156

PRIME MINISTER

Handling of Work on Nationalised Industries Following Disbandment of the Central Policy Review Staff

We need to consider how to handle such work on the nationalised industries as falls to be dealt with at the centre following the disbandment of the Central Policy Review Staff (CPRS).

2. One of the recommendations in the CPRS Report on the nationalised industries which was accepted by the Government was that there should be a Nationalised Industry Review Staff with business experience located within the CPRS to assist the members of the Ministerial Sub-Committee on Nationalised Industries (E(NI)). Mr David Green was brought in specially to lead this work, and most of the other CPRS members with business experience, including Robin Ibbs and John Sparrow themselves, spent a good deal of their time on nationalised industry matters.

3. The main elements in the work have been:

i. setting up a new policy framework and procedures with agreed objectives for each industry, considerations of strategic options and regular reviews of performance and corporate plans;

ii. assisting the Treasury and sponsoring Departments to apply the new arrangements at i. to particular nationalised industries;

iii. advising Ministers on nationalised industry problems by the circulation of collective briefs to E(NI) drawing attention to the main issues and by contributions to E(NI) discussions and ad hoc Ministerial meetings.

4. The new policy framework and procedures have now been established, although a good deal remains to be done to ensure that they are effectively implemented by Departments. There will be a continuing need to ensure that Ministerial discussions in E(NI) are directed to the key issues. Ministers may also want from time

to time advice available to them collectively from a senior businessman on business issues which arise in connection with the nationalised industries. These are functions which, if they are to be continued, have to be carried out at the centre; they would not be appropriate for the Treasury and sponsoring Departments, and the Treasury themselves would like to see them continued from the Cabinet Office.

5. I do not think we need to retain a separate Nationalised Industry Review Staff as such to carry on this work. Some of it does not require business expertise (for example progress chasing and ensuring that papers submitted to E(NI) present the issues in a way conducive to effective discussion) and can be taken over by the Economic Secretariat as a natural extension of its normal work. If however we wish to have a source of business advice available to Ministers collectively on nationalised industries' matters (and I see considerable advantage in this, particularly given the fact that Departments have not gone in for adding businessmen to their own teams), we shall need to consider how best to provide for it.

6. In my view the right solution for us to aim at ultimately would be on the following lines. The business advice, if it is to be of value to Ministers, must carry the authority of a very senior and experienced businessman, preferably with extensive private sector industrial rather than purely financial experience. The advice will be needed not on a continuing basis but as occasion arises, although there would be advantage in keeping the person concerned in touch with the general development of the nationalised industry work, so that when the need for advice arose he would be familiar with the context. I envisage that he might be asked to prepare papers and also, in appropriate cases, to attend Ministerial meetings. He would work with and be supported by the Economic Secretariat under Mr Gregson.

No

7. This specification would point to a recently retired Chairman of a large private sector company of the calibre of, say, Sir Maurice Hodgson or Sir David Orr. We might offer him an arrangement based on one or two days a week, to be interpreted flexibly on either side, with an office in the Cabinet Office and a suitable title.

8. If you would like to proceed on these lines, it will probably take us until near the end of this year to find the right man and get him on board. This will leave a gap of some months following the disbandment of the CPRS at the end of July. I should like to bridge this gap by retaining the services of David Green. I think that he would be prepared to stay for a few months, but not more than that. He could be attached to the Economic Secretariat to assist them in carrying on the nationalised industry work until the new adviser arrived or he himself wished to leave, whichever was the sooner.

Conclusion

9. This minute proposes:

i. that the nationalised industry work previously carried out by the CPRS which does not require business expertise should be taken over by the Economic Secretariat under Mr Gregson;

ii. that we should continue to have available for Ministers a source of collective advice on business issues which arise in relation to the nationalised industries, and that this might be provided ultimately by a retired senior businessman as a part-time adviser on the lines set out in paragraphs 6 and 7;

iii. that we should retain the services of David Green, attached to the Economic Secretariat, on a temporary basis on the lines envisaged in paragraph 8.

RtA

ROBERT ARMSTRONG

21 July 1983

P.01068

PRIME MINISTER

Nationalised Industries' 1983 Investment and Financing Review

(E(A)(83)4)

BACKGROUND

This memorandum by the Chief Secretary, Treasury, with the accompanying note by officials, is the first stage in consideration by Ministers collectively of the investment programmes and financing requirements of the nationalised industries in the context of the public expenditure survey. Its coverage is much the same as last year, except that, for the first time, expenditure on the Redundant Mineworkers' Pensions Scheme (about £60 million a year) is included, and credit is taken for dividends from British Telecom (BT), on the assumption that the Corporation will be privatised in the autumn of 1984.

2. The salient figures in the review are set out in the Annex to this brief. For ease of comparison with the baseline figures they ignore the changes of coverage mentioned above, unless otherwise stated. E(A)(83)4 does not refer to the reduction in the EFLs of the nationalised industries in 1983-84 announced on 7 July, with other savings, by the Chancellor of the Exchequer. However, the total reduction is only about £57 million. This is de minimis against the industries' turnover and investment programmes.

3. Leaving aside possible receipts of BT dividends, industries are bidding for additional external finance of nearly £700 million in 1984-85 and over £350 million in 1985-86. These bids are due entirely to forecast reductions in internal resources or increased capital requirements other than expenditure on fixed assets (ie either stocks and work in progress or financing items). In both years, forecast expenditure on fixed assets is marginally below baseline. The decline in forecast internal resources is shared by a large number of industries; but the bulk is due to the following four.

	Change in internal resources	
		£ million
	1984-85	1985-86
National Coal Board	- 515	- 307
British Steel Corporation	- 196	- 168
British Telecom	- 190	- 194
British Shipbuilders	- 91	- 76

4. In 1986-87 (for which the baseline is simply an arithmetical construct produced by increasing the 1985-86 figures by 3 per cent), the industries are bidding in aggregate for some £700 million less external finance than the baseline; this is largely due to forecast internal resources being better than the baseline: the main contributors are electricity (nearly £400 million), gas (over £300 million) and airways (nearly £100 million).

5. The figures for individual industries are of varying quality; and relatively few appear to have been discussed in depth with the industries. The Chief Secretary argues that although there are some encouraging trends - in particular, the trend of external financing requirements (EFRs) is downwards - the overall position is not acceptable, and that the bids for additional finance should be rejected. Indeed, he suggests that, particularly in view of likely difficulties on public expenditure more generally, Ministers should go further and require reductions below the baseline of at least £500 million in 1984-85 and £900 million in 1985-86; and that reductions of £1 billion beyond what the industries are offering should be secured in 1986-87. These proposals, if successful, would produce the following total EFRs.

	EFRs: Chief Secretary's proposals		
			£ million
	1984-85	1985-86	1986-87
Baseline	2563	2092	2155
Proposal	2063	1192	447
(Industries' bids)	3254	2455	1447

As already noted, the figures ignore possible BT dividends.

6. In order to achieve these reductions the Chief Secretary suggests that industries should be pressed to make reductions in current costs; to economise on working capital; to sell fixed assets; and to avoid over-pessimistic economic assumptions. Investment bids should be scrutinised to ensure that they are realistic and based on profitable projects.

7. If these general proposals are approved, officials would hold discussions with the industries and report back with firm proposals for Ministers to consider in the autumn.

MAIN ISSUES

8. It is unlikely that the Sub-Committee will dissent from the proposition that a significant reduction in the total of bids from the industries is necessary: as the Chief Secretary observes, many of the figures should probably be regarded as opening bids in a negotiation with the Government. The main issues are:

i. Is the scale of reduction proposed by the Chief Secretary broadly acceptable?

ii. What should be the general guidelines for discussions with the industries, particularly on earnings assumptions?

Scale of reduction

9. The Chief Secretary's proposal - a reduction of £1 billion a year in the industries' bids for each of the 3 years - is ambitious. There is a balance to be struck. On the one hand, you will probably wish to give the Chief Secretary as much backing as possible in his discussions with sponsoring Ministers. It is also desirable to set demanding EFLs so as to maximise the pressure for economy. On the other hand, it stores up trouble if public expenditure plans are laid on an unrealistic basis. Nationalised industry EFLs are a less effective means of control than departmental cash limits; and if the new baseline eventually agreed is too optimistic it will not hold. The outturn is always difficult to forecast. EFLs were undershot in 1982-83 and the Chief Secretary expects a further undershoot in the current year. There was however an overshoot in 1981-82.

10. It may be that the right course will be to accept the Chief Secretary's proposals as a basis for opening the discussions but to bear in mind, in other parts of the Public Expenditure Survey, that the proposed savings may not be delivered in full.

Guidelines for the discussions

11. The Sub-Committee will probably agree that the guidelines for the discussions should be as proposed in paragraphs 7 and 8 of the Chief Secretary's paper, ie pressure for reductions in current costs and in working capital, and for sales of fixed assets wherever practicable; close scrutiny of the economic assumptions; and insistence on investment programmes which not only earn an adequate return but can also be realistically achieved within the timescale.

12. The Sub-Committee will however wish to consider carefully what should be said to the industries about their assumptions for earnings increases. (Table H on page 18 of the report by officials). Their forecasts for nominal earnings are, as the table shows, broadly in line with outside forecasts for the economy as a whole. Their forecasts for real earnings are actually more tough than outside forecasts. On average they are forecasting no real increase and some industries (coal, gas, steel, Post Office, and shipbuilders) are assuming real reductions. The Government will wish to encourage the industries to adopt a stringent approach to pay increases and the EFL discussions provide one of the ways of getting this message across. It will therefore be right to press the industries to adopt suitably demanding targets for earnings increases. On the other hand, the Government will need to keep in mind, in the context of the Public Expenditure Survey as a whole, that the public trading sector has a poor record in containing pay and that EFLs which rest on assumptions that the industries will do markedly better in the future may well be overshot.

Points on particular industries

13. You will not wish to go into much detail on individual industries. British Shipbuilders is to be discussed later the same day by E(NI); it is hoped that there will be discussions before the recess of gas and coal; and there is an official group (MISC 94) studying future railway policy. Thus several of the 'problem' industries are already under collective scrutiny.

HANDLING

14. You will wish to ask the Chief Secretary, Treasury to introduce his memorandum. You might then invite the Ministers with sponsoring responsibilities - Secretaries of State for Energy, Scotland, the Environment, Trade and Industry, and Transport - to comment, both generally and from the standpoint of the industries for which they are responsible. The Chancellor of the Exchequer may wish to comment on the economic assumptions, as well as more generally; the Secretary of State for Employment may, in particular, wish to comment on the pay assumptions.

CONCLUSIONS

15. You will wish the Sub-Committee to reach conclusions on the following:

i. whether the target for aggregate reductions below the baseline should be as proposed by the Chief Secretary, ie £500 million in 1984-85, £900 million in 1985-86, and £2 billion in 1986-87;

ii. whether the guidelines for the discussions with the industries should be on the lines proposed in paragraphs 7 and 8 of the Chief Secretary's paper;

iii. whether officials should pursue discussions with the industries on the basis of i. and ii. above and should report back with firm proposals for Ministers to consider in the autumn.

PLG

P L GREGSON

13 July 1983

ANNEX

Nationalised industries' capital requirements 1983-84 to 1986-87

£ million

	1983-84	1984-85			1985-86			1986-87		
	Forecast outturn	Baseline	Bid	Total	Baseline	Bid	Total	Baseline	Bid	Total
Capital requirements										
Fixed assets	7427	8166	- 7	8159	8406	- 30	8376	8660	+ 61	8722
Other	63	218	-177	41	76	+ 80	156	78	+ 41	149
TOTAL	7490	8384	-184	8200	8482	+ 50	8532	8738	+ 102	8840
Internal resources	-4404	-5820	+875	-4945	-6389	+314	-6076	-6583	- 810	-7392
External financing requirement	3086*	2563	+691	3254	2092	+ 363	2455	2155	- 708	1447
BT dividends			-180	3074		-260	2195		- 320	1127

* Before 7 July reductions

Notes

(a) + increases EFR, - reduces EFR

(b) Items may not sum to total because of rounding

5

S/NO

CABINET OFFICE

Central Policy Review Staff

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

From: John Sparrow

Qa 06404

28 June 1983

The Rt Hon Nigel Lawson MP
HM Treasury
S W 1

Dear Nigel,

E(NI): Performance and Corporate Plan Reviews

The volume and detail of the paper which confronts E(NI) at its meeting on 5 July to discuss the Electricity Supply Industry is not at all what the CPRS envisaged in its 1981 Report on the Relationship between Government and the Nationalised Industries. In that Report we recommended that E(NI) should be a forum for collective Ministerial discussion on the nationalised industries but warned against the temptation to get involved in matters other than those of strategic importance.

There is a clear distinction between strategic planning options which need to be assessed at the beginning of the planning cycle and the results of this cycle contained in the Corporate Plan. I suggest that collective discussion in E(NI) should concentrate on the former and reach decisions which form the basis for the next round of Corporate Plans. The proposals for a strategic options paper and a summary of the Performance Review and Corporate Plan which are being developed for the Electricity Boards could be usefully extended to other industries. It would then no longer be necessary for Ministers collectively to receive details of the Review and the Plan. These would fall to be assessed by the sponsor Department and only brought by the sponsor Ministers to E(NI) for collective discussion if there are major difficulties. The CPRS and your officials are discussing some detailed proposals along these lines with sponsor Departments.

At the risk of burdening E(NI) with a further document for its meeting on 5 July I propose circulating a collective brief to help Ministers identify the main issues in front of them on this occasion.

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

Yours sincerely,

John.

John Sparrow

cc NO

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

CONFIDENTIAL

JU691

12 May 1983

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

NBPM

MWS 13/5

Dear Leon,

CHANGES IN NATIONALISED INDUSTRY STATUTES

Following the discussion in E(NI) on 26 April further work is to be carried out on the changes to nationalised industry statutes. There are a number of points on which I think the checklist provisions themselves require further thought.

2 In particular, the current suggestions on extending the coverage of statutory borrowing limits may present problems. Extending the borrowing limit to cover borrowing by partly owned subsidiaries would, I believe, have an inhibiting effect on privatisation. Moreover there are practical problems on the valuation of contingent liabilities which would need to be solved if borrowings guaranteed by a nationalised industry or its subsidiaries are to be included in borrowing limits. For example British Shipbuilders typically give guarantees of up to 15 years and if they crystallise BS would normally be able to exercise a lien on a ship. Valuation of the contingent liability arising under such guarantees would require calculation of the discounted value offset by an assessment of the value of the rights over the vessel.

3 These are points which will need to be resolved initially by officials as we agreed at E(NI). But I thought that it would be useful to indicate the sort of issues which have still to be settled before the list attached to your paper E(NI)(83)8 can be regarded as an agreed list.

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

Yours ever

Patrick

Top Copy with Questions

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

JU584

3 May 1983

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

PS/Ministers
PS/Secretary
Mr Croft
Mr Manzie
Mr Gill
Miss Mueller
Mr Roith
Mr Leeming IC(B)
Mr Woodrow INF
Mr Sherbourne
Mr Hardbattle PB
Mr Field IC(B)4 (on file)

Dear Michael,

PUBLIC PURCHASING : PRIME MINISTER'S QUESTIONS

You will recall that after the recent CEGB barge case, we discussed how the Prime Minister might be provided with more systematic briefing in advance on public purchasing cases which are liable to give rise to public concern and, hence, to questions in the House.

2 I attach a copy of the letter which I have now circulated to all Departments asking for their help in identifying and briefing on potentially controversial cases. I would again emphasise that no such system be entirely foolproof and there will undoubtedly continue to be cases which slip through, either because Departments have not been told of impending orders or sometimes simply because orders are given far more prominence than could be reasonably foreseen. However, I hope that what we are proposing to Departments will result in an improvement in the present situation. As a "belt and braces" operation, Department of Industry Sponsor Divisions are being asked separately to be alert to this need for briefing in cases of which they may themselves become aware. Since this procedure is being introduced for legitimate briefing purposes and is not confined to cases involving prospective foreign purchases, we see no reason why it should be held to be objectionable under the Treaty of Rome if Brussels became aware of it.

3 It would be useful to know, say, in six months time, the extent of briefing provided as a result of this early warning procedure and your perception of its usefulness.

4 I am copying this letter to Margaret O'Mara in the Chancellor of the Exchequer's Office.

Yours sincerely,

Jonathan Spencer

JONATHAN SPENCER
Private Secretary

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

01 211 6402

✓CC NO

NBPM
mrs 22/4

CONFIDENTIAL

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London
SW1

22nd April 1983

Dear Chief Secretary

Following E(NI) on 14 March, I take it that you will be looking at possible statutory changes to strengthen Ministerial powers to dismiss board members.

I mentioned the problem in my letter of 3 March. The present position seems to be that a board member - including, of course, a Chairman - could seek a declaration in the Courts that he remained entitled to the office. It would however, be possible - and probably desirable - in future to frame instruments of appointment so that an appointment could be terminated by giving a specified period of notice. Primary legislation would then be required to allow the circumstances in which compensation would be payable, and the basis on which it would be calculated, to be determined when appointments were made.

An alternative approach may be needed if board members are to get the bulk of their pay as executive salaries - it may then be necessary to think in terms of formal contracts of service. But, in either case, I suggest that we will need a representative picture of private sector arrangements as a starting point for considering how to tackle the question of compensation in the public sector.

I am copying this to the recipients of my earlier letter.

Yours sincerely

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

Nat Ind Policy Pt 8

22 APR 1983

Nat Ind
Pt 8

CONFIDENTIAL

cc NO

NBPM
MCS 22/4

Treasury Chambers, Parliament Street, SW1P 3AG

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

21 April 1983

D David,

CHANGES IN NATIONALISED INDUSTRY STATUTES

Thank you for your letter of 15 April. I certainly do not intend that an ombinus Bill (as I propose in my paper) should prejudice any more far reaching changes in structure and relationships with the nationalised industries that we might decide to make.

Nor do I think that this would be the effect. My paper proposes legislation early in the life of a new Parliament. In practice there is no possibility of legislation before the 1984-85 Session. This should leave ample time to modify the Bill in the direction of including any more fundamental changes that we decide to adopt. We are of course still some way off making such decisions. In the meantime preparation of the Bill should in my view proceed on the basis of the more modest proposals in the agreed check list.

I am sending copies of this to the Members of E(NI) and to Sir Robert Armstrong and Mr Sparrow.

Ever
Leon

LEON BRITTAN

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DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Prime Minister 2

The Rt Hon Leon Brittan QC, MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

MCS 13/4

12 April 1983

Dear Leon

CHANGES IN NATIONALISED INDUSTRY STATUTES

I think I ought to write to you, ahead of the discussion in E(NI), to record my major reservation about the method of proceeding that you suggest in your paper E(NI)(83)8.

As I said when I wrote to you on 3 March I am content with the substance of the proposals for piecemeal reform. But I hope that this would not in any way prejudice our search for more fundamental changes in the structure and relationships with the Government of the nationalised undertakings which are so clearly required and which we are pursuing presently in a party policy context.

My worry is that your proposal to proceed by omnibus legislation with the various technical changes that have been identified by officials would prove counter-productive. If we can contemplate a substantial bill, we ought surely to be thinking of fundamental changes of the kind now taking shape in our minds. Tuning up the present antiquated machine is

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something we can perfectly well do piecemeal industry by industry as occasion arises, but to bring in comprehensive legislation for this limited purpose could give quite the wrong thrust to our policy.

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

Yours ever

David

DAVID HOWELL

13 APR 1980

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MR. SPARROW

The Prime Minister was grateful for your minute about the roles of Chairman and Chief Executive.

She has noted it without comment.

MS

31 March 1983

010

2

Prime Minister

Mr Sparrow? ? wants this elusive note to go to you just as it is.

CONFIDENTIAL

Qa 06301

To: PRIME MINISTER

From: JOHN SPARROW

24 March 1983 MCS 25/3

1. The jobs of Chairman and Chief Executive are quite different and essentially separate. The qualities required for each job are also very different and it is unusual for them to co-exist in any one man.

2. A few men are capable of being either Chairman or Chief Executive but the differences between the two jobs and the need for the Chief Executive to be accountable to the Chairman mean that even in those cases the jobs should never be held simultaneously.

3. This is particularly so in the case of the nationalised industries, where the Chairman is necessarily a public figure, spending much of his time away from the business. This is in sharp distinction from the need of the Chief Executive to live with the business.

4. Ideally, major nationalised industries need a full-time Chairman and a full-time Chief Executive. Where this is not possible, it is better to have a part-time non-executive Chairman than for the Chief Executive to do both jobs.

JS.

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Policy
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CC NO

1

NAT IND.

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

18 March 1983

Julian West Esq
Private Secretary to the
Secretary of State for Energy
Thames House South
Millbank
LONDON SW1P 4QJ

Dear Julian,

PUBLICATION OF NATIONALISED INDUSTRIES' OBJECTIVES

The Chancellor has seen a copy of your letter of 17 March with MCS to Michael Scholar.

The Chancellor is generally content for the objectives for the CEGB and, subject to one point below, the NCB to be published today. He is, however, concerned about the proposed timing of objectives for BNOC. Given the current upheaval in the oil market and the fragility of the recent OPEC agreement he thinks that it would be a mistake to publish objectives for BNOC just now. While the objectives are individually unexceptionable, the Chancellor considers that the publication of a document of Government "objectives" explicitly providing for consultation with Government on a number of matters might surprise OPEC members, given the line recently, and rightly, taken with them. He thinks that it might be better to postpone publication of the BNOC objectives until the oil markets are somewhat calmer.

On the NCB, the Chancellor notes that there are some differences of wording in the objectives proposed for Mr MacGregor (circulated yesterday) and those to be published for Mr Siddall. This might possibly prompt some questions when objectives for Mr MacGregor come to be published. However, the Chancellor would not want to hold up publication of NCB objectives on that account.

I am copying this letter to the recipients of yours.

Yours sincerely,

Margaret O'Mara

MISS M O'MARA
Private Secretary

Nat Ind, Policy, Pt 8

18 MAR 1983

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bc N.O.

10 DOWNING STREET

From the Private Secretary

18 March 1983

Dear Julian,

PUBLICATION OF NATIONALISED INDUSTRIES' OBJECTIVES

Thank you for your letter of 17 March.

As I told you on the telephone, the Prime Minister agrees, subject to the views of her colleagues, to your publishing these objectives today.

I am sending a copy of this letter to the Private Secretaries to members of E(NI) and to Richard Hatfield (Cabinet Office) and Gerry Spence (CPRS).

Yours sincerely,

Michael Scholar

Julian West, Esq.,
Department of Energy.

CONFIDENTIAL

ce NO

(1)

Prime Minister

Agree, subject to colleagues' views?

(The Chancellor is likely to object to publication of BNOC objectives, because of worries about the effect on Yamani, oil market etc).

MCS 17/3

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

Yes

Michael Scholar Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON SW1

MT

17 March 1983

Dear Michael,

PUBLICATION OF NATIONALISED INDUSTRIES' OBJECTIVES

The Prime Minister and other colleagues accepted the proposals in my Secretary of State's minute of 27 July last in which he suggested the "three-tier" approach to publishing the objectives set for the NCB, but the timing of publication of these and other objectives was left in his hands.

PT7 -

Mr Lawson has now come to the conclusion that the time has come to publish the objectives which he has set for the BNOC, CEGB and NCB. The key factor here, is the position on the NCB. After the March ballot, there is now relative calm on the industrial relations front. Mr Lawson therefore proposes to publish the objectives as soon as possible, in order to disassociate them from the announcement of Mr MacGregor's appointment.

Publication of the objectives for the BNOC and CEGB at the same time will underline that the setting of objectives is a standard procedure. Publication of the CEGB's objectives will also be helpful in the Sizewell context, where the Department's witnesses have been under pressure to disclose them.

Mr Lawson therefore proposes to publish all these objectives tomorrow in a single arranged written Answer.

I am copying this letter to the private secretaries to members of E(NI), Richard Hatfield and Gerry Spence.

Yours ever,

Bal

JULIAN WEST
Private Secretary

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Nat Ind: Policy Pt 8

Nat Ind

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

c BI

Nat. Ind CC JV

Prime Minister (2)

MCS 7/3

From the Secretary of State

CONFIDENTIAL

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

7th March 1983

Dear Leon,

1983 PROGRAMME OF SECTION 11 REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION

+PM

Thank you for your letter of 1 March about my announcement of the 1983 Section 11 Programme.

I intend to make the announcement on Wednesday 9 March and I have no objection to your giving St John-Stevas twenty four hours advance notice.

I am however concerned that the terms of your draft letter suggest some doubt about the MMC's continuing to carry out efficiency audits of nationalised industries. Your compromise proposals of course entail a continuing MMC role with greater Parliamentary involvement in the selection of references and in monitoring follow-up. I see no reason for your letter to St John-Stevas to do more than forewarn him that I shall be announcing the 1983 programme in the usual way.

I am copying this to Members of E(NI) and MISC 92 and to John Sparrow and Sir Robert Armstrong.

Yours,

Arthur

LORD COCKFIELD

Nat Ind
CJ

SECRETARY OF STATE FOR TRANSPORT

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NBPM

Mus 3/3

RESTRICTED

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
SW1P 3AG

3 March 1983

Dear Leon

Thank you for your letter of 24 January enclosing a checklist of desirable changes in nationalised industry financial statutes. I am content with your proposals for piecemeal reform, although I would hope that this would not in any way prejudice our search for more fundamental changes in the structure and relationships with Government of the nationalised undertakings which are so clearly required.

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

Yours ever

David

DAVID HOWELL

nat Ind. policy pt 8

c/ JU

NBPM

2 PPS

MUS 3/3

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

01-211-6402

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

3rd March 1983

Dear Leon

REVIEW OF DESIRABLE CHANGES IN NATIONALISED INDUSTRY STATUTES

Thank you for your letter of 24 January and its attached checklist. I am not yet convinced of the case for some of these provisions and doubt, in particular, the desirability of counting market borrowings by partly-owned subsidiaries against an industry's statutory borrowing limit.

The checklist also omits, because it was outside the scope of your review, a further change in nationalised industry statutes which may prove to be necessary, namely to make it possible for the Government to remove a Board Member before his period of appointment expires. I am looking into this, as it concerns my industries, and may write to you again shortly in more detail. However, if there is to be such a change it does seem to me that it would best be made in a piece of 'omnibus' legislation which, together with the reasons given by Arthur Cockfield in his letter of 4 February, suggests that all these changes should be dealt with in that way. I would certainly be opposed to including any in my Department's next piece of nationalised industry legislation - the coming Session's Coal Industry (Finance) Bill which must reach the Statute Book by March 1984 and so must be confined strictly to essentials.

I agree with you that it would be right to consult the Chairmen's Group at this stage.

I am copying this letter to the recipients of yours.

Yours ever
Nigel

NIGEL LAWSON

Nat Fnd
Pol, Pt 8

cc/JV

NBPM

MCS 3/3

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

The Rt Hon the Lord Cockfield
Secretary of State for Trade
1 Victoria Street
London
SW1H OET

3rd March 1983

Dear Arthur

MMC PROGRAMME FOR 1983

Thank you for sending me a copy of your letter of 23 February to Geoffrey Howe.

I am content with your proposed statement, including the references to the South Wales Electricity Board and to the receipt of the report on the NCB. Given the background sensitivities I attach great importance to getting the timing right for publication of the NCB report, and John Moore is in touch with Gerry Vaughan about this.

I am sending copies of this letter to recipients of yours.

Yours
Nigel

NIGEL LAWSON

Nat Ind,
Pol pt 8

Not Sd pol

CC JV.

Prime Minister

MS 2/3

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Lord Cockfield MP
Secretary of State
Department of Trade
1 Victoria Street
London SW1H OET

MF

1 March 1983

D Arthur,

1983 PROGRAMME OF S11 REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION (MMC)

You wrote to Geoffrey Howe on 23 February seeking agreement to proceed with an announcement of the 1983 programme of nationalised industry references to the MMC.

I agree that we should proceed with an announcement despite the uncertainties created by the passage through the House of the Parliamentary Control of Expenditure (Reform) Bill and I am content with your draft statement. But I think it would be sensible if I wrote to Mr St John Stevas to warn him of the announcement, explaining our reasons for proceeding with it at this time. ... I propose to write on the lines of the attached draft and I should be grateful if your office could give mine 24 hours notice of the date of your announcement so that I can be sure Mr Stevas gets advance warning.

I note the outline programme you have in mind for the first half of 1984. We shall need to consider this nearer the time when current uncertainties may have been resolved. If it appears that the work of the MMC is to continue substantially unchanged, it may be helpful also to review then one or two more general points about the Commission's work load which our officials have been in touch about.

I am copying this letter to Members of E(NI) and MISC 92, Sir Robert Armstrong and John Sparrow.

Leon

LEON BRITTAN

~~DRAFT~~ LETTER TO THE RT HON NORMAN ST JOHN STEVAS
House of Commons

MONOPOLIES AND MERGERS COMMISSION (MMC) : PROGRAMME OF S11 REFERENCES

As you probably know the Government tries to announce in advance forthcoming nationalised industry references to the MMC. I thought I should write to let you know that we shall shortly be anouncing the programme for 1983.

2. We thought very carefully about the implications of your Bill for this announcement. I think you would agree that unless and until any new arrangements are made it is better for the MMC to continue in business as usual. To do otherwise would mean a period when the industries were not subject to any regular external scrutiny. And if it were the case that your Bill led to a new regime being introduced I do not think that would clash with this programme of references which covers 1983 only.

Not Ind Policy

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c/JU

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

(2)

Prime Minister

MCS 2/3

The Lord Cockfield
Secretary of State for Trade
Department of Trade
1 Victoria Street
SW1H OET

1 March 1983

MT

Dear Arthur

I refer to your letter of 23 February to Geoffrey Howe, about the 1983 and 1984 programmes of references of nationalised industries to the Monopolies and Mergers Commission.

I am content with the draft announcement on the 1983 programme, including the reference to London Transport. For 1984, I agree to the provisional inclusion of an aspect of British Rail, subject to circumstances following decisions on the Serpell report. But I understand that you accept that should it prove inappropriate to refer part of BR at that time my Department will not automatically be expected to suggest an alternative candidate.

Ever
Dave

DAVID HOWELL

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Nat Ind. Policy: Pt 8

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NBPM MLS 1/3

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

JF2798

Secretary of State for Industry

28 February 1983

The Rt Hon Lord Cockfield
Secretary of State for Trade
Department of Trade
1 Victoria Street
LONDON
SW1H 0ET

Dear Arthur,

1983 PROGRAMME OF NATIONALISED INDUSTRY REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION

Thank you for sending me a copy of your letter of 23 February to Geoffrey Howe, together with the draft statement announcing the 1983 programme of Section 11 references to the Monopolies and Mergers Commission.

2 I am content with both the proposed Parliamentary Question and the reply.

3 I am copying this letter to the recipients of yours.

Yours ever

Patrick

Nat Ind: Policy Pt 8

CONFIDENTIAL

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

MUS 23/2

1 Mr Scholar
2 Prime Minister

Content [redacted]?

WR 23/2

From the Secretary of State

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

23rd February 1983

MS

Dear Geoffrey,

I attach a draft statement I should like to make as early as possible in March, announcing the programme of references of nationalised industries to the Monopolies and Mergers Commission in 1983. The loss of British Telecom has been made good by the inclusion of an aspect of the Post Office.

I believe an early announcement will, by confirming our resolution to proceed with current procedures, be helpful to our position in the Committee on the Parliamentary Control of Expenditure (Reform) Bill.

Although I propose to announce only the 1983 programme, we have as usual been considering the provisional workload for the Commission in the first half of 1984. Norman St John Stevas' Bill makes the outlook twelve months hence more uncertain than usual, and two of the candidates have particular uncertainties. We have in mind, however, an aspect of British Rail, should the circumstances post-Serpell permit, and the British Airports Authority, on the understanding that the dispute with the airlines has been resolved. We shall be able to review their suitability nearer the time. The third investigation for the first six months of 1984 would be an aspect of the water industry.

From the Secretary of State

I should welcome comments on the draft statement by 1 March. I am sending copies of this letter and the statement to colleagues in E(NI) and MISC 92, Sir Robert Armstrong and John Sparrow.

John
Arthur

LORD COCKFIELD

Annex A

DRAFT INSPIRED PQ AND ANSWER

To ask the Secretary of State for Trade if he will report progress on the rolling programme of references to the Monopolies and Mergers Commission of nationalised industries.

During the course of 1982 reports were published on four bus undertakings and the sewerage functions of the Anglian and North West Water Authorities. The report on Caledonian MacBrayne will be published **shortly** and I have also received the Commission's report on the National Coal Board which will be published in due course.

The Commission is currently investigating the costs and efficiency of the Civil Aviation Authority's air traffic control services, and the Yorkshire Electricity Board. The latter investigation will be followed by a study of the costs and efficiency of the South Wales Electricity Board.

In addition, I shall shortly be referring the bus maintenance operations of London Transport, and later the Merchant Shipbuilding activities of British Shipbuilders. Towards the end of the year I intend to refer an aspect of the operations of the Post Office.

Terms of reference will be announced as each reference is made.

Nat Ind

NBPM

CSJU

MS 23/2

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

23 February 1983

Dear Leon,

REVIEW OF DESIRABLE CHANGES IN NATIONALISED INDUSTRIES FINANCIAL STATUTES

Thank you for sending me a copy of your letter of 24 January to Nigel Lawson. I have also seen Patrick Jenkin's and Arthur Cockfield's letters of 3 and 4 February respectively.

I am generally content with the proposals and I would agree with the suggestion that they should be circulated to the NICG. I am inclined, however, to favour implementation in an omnibus Bill rather than by piecemeal legislation, for the reasons set out in Arthur Cockfield's letter. Whilst recognising the flexibility which piecemeal legislation would provide, I cannot see any realistic prospects for including the appropriate legislation within any Scottish legislative programme in the foreseeable future.

In the event that colleagues agree to adopt a piecemeal approach, I would hope that neither Nigel Lawson nor David Howell would see any difficulty in including suitable Scottish provisions in the legislation for the corresponding industries in England and Wales.

I am copying this letter to the recipients of yours.

Yours ever,

George.

Nat Ind Policy Nr 8

CABINET OFFICE
Central Policy Review Staff
70 Whitehall, London SW1A 2AS Telephone 01-233 7765

Qa 06257

From: John Sparrow
CONFIDENTIAL

Nat Ind

11 February 1983

The Rt Hon Lord Cockfield
Department of Trade
1 Victoria Street
S W 1

Dear Secretary of State

BAA Objectives

Pt 7

I have just received a copy of your letter to Leon Brittan of 17 December about objectives for the British Airports Authority. I have also seen his reply of 19 January.

I recognise that, because of the litigation by the American Airlines, we are not able to proceed with the agreement of objectives for BAA in the normal way. The BAA Board's adoption of a set of objectives that reflect the Government's own reasonably closely is a welcome and helpful development. And, I agree about the importance of quantified indicators of overall performance.

Together these objectives and quantified targets will help to set the Corporate Plan in proper context. Where the objectives are less clear or demanding than the Government would wish, the ground can be made up to a certain extent in Corporate Plan discussions.

There is just one point I would like to make about the objectives. BAA say that they will strive to improve the range and quality of services and reflect best practice (Objective c). An open-ended commitment always to improve runs the risk of 'gold-plating'; whilst not denying the need for improvement, I hope that the range and quality of services will be governed, as in any private sector concern, by what customers want and are prepared to pay for, and by BAA's primary objective, to improve efficiency and profitability.

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

Yours sincerely

P.P. John Sparrow

(Dictated by Mr Sparrow and signed in his absence)

Nat Ind: Policy: Pt 8

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

ECJU

NAT IND.

Prime Minister ②

MCS 4/2

From the Secretary of State

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

4 February 1983

Dear Leon,

REVIEW OF DESIRABLE CHANGES IN NATIONALISED INDUSTRIES FINANCIAL STATUTES

Thank you for sending me a copy of your letter of 24 January to Nigel Lawson.

I am broadly content with your proposals.

I see, however, considerable attraction in an omnibus Bill rather than piecemeal legislation. An omnibus Bill should be much more economical of time, to the benefit both of Whitehall and of the Parliamentary timetable. It should also be a much quicker method of making changes, since if we have to rely on separate Bills it may take some years to find the time for some industries. Moreover piecemeal legislation may well partially defeat the object of the exercise, namely achieving a measure of consistency between industries, since it increases the risk of having to accept amendments affecting some industries but not others.

I therefore favour a single piece of legislation on the lines of the Statutory Corporations (Financial Provisions) Acts of 1974 and 1975.

On a point of detail, I understand that, under present legislation, some nationalised industries (including British Airways and British Airports Authority) are unlikely to

From the Secretary of State

be able to take advantage of the Treasury's new scheme for temporary borrowing from the National Loans Fund. You may therefore like to include provision for regularising the position here in the present package of measures.

I am copying this letter to the recipients of yours.

Yours, Arthur

LORD COCKFIELD

RESTRICTED

JH 753

NBPM NAT IND

MCS 4/2

Nat Ind Policy

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

3 February 1983

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

Dear Leon,

PROPOSED CHANGES IN FINANCIAL PROVISIONS OF NI STATUTES

Thank you for your letter of 24 January and the enclosed paper.

2 I am content that we establish this checklist in principle, although, like you, I should certainly not favour implementation by an omnibus Bill.

3 There are some proposals which cause difficulty in relation to the industries this Department sponsors. Detailed comments on these were conveyed at official level in January and I will not therefore repeat them here. I support your proposal to consult the NICG.

4 Copies of this go to members of E(NI) and to the Lord President.

Yours ever

Patrick

nat Ind,
Policy: pt 8

Prime Minister (4)

MLS 25/1

Treasury Chambers, Parliament Street, SW1P 3AG

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

24 January 1983

Dear Nigel,

REVIEW OF DESIRABLE CHANGES IN NATIONALISED INDUSTRY FINANCIAL STATUTES

As you will know officials have been reviewing nationalised industry financial legislation and I attach a note which sets out a number of desirable changes. The need for changes arises because some industries' earlier legislation does not reflect current conditions and because there are some general deficiencies. Not all the proposed changes are relevant to every industry.

Officials have reached broad agreement and I hope the flexible approach we are now adopting will overcome any remaining reservations. If there are any remaining problems, or suggestions for addition, I would be grateful to be told as soon as possible.

Once the checklist is agreed, it could be implemented either piecemeal or as a piece of omnibus legislation. I favour piecemeal implementation as and when legislative opportunities arise on individual industries' statutes, since this avoids the need for additional complex and detailed nationalised industry legislation. Moreover piecemeal implementation would make it easier to respond with a degree of flexibility to industries' individual circumstances.

At the next stage, I would intend putting the checklist to NICG fortheir comments. I would be prepared to accept comments on points of detail from the Chairmen but not, of course, on the substance of the checklist items which are a matter of policy rather than for negotiation.

... I am copying this letter and enclosure to other Members of E(NI) and to the Lord President.

Yours,
Leon

LEON BRITTAN

CHECKLIST OF DESIRABLE CHANGES IN NATIONALISED INDUSTRY FINANCIAL STATUTES

Note by HM Treasury

1. A review of nationalised industry financial statutes has been conducted by officials under the auspices of NIP(WG). The aim has been to establish a checklist of desirable provisions for inclusion in individual nationalised industry statutes whenever it was practicable to do so. Statutes vary considerably from industry to industry, in part dependent on when they were enacted. The checklist takes account of this, as well as of developments in the relationship between Government and the industries and of specific points raised by the PAC.

2. The following are the provisions which it is considered should desirably be included in all nationalised industry statutes. The list, while it represents the current position, should not be regarded as closed to new items which future developments suggest are worth adding.

A - Extension of Coverage of Statutory Borrowing Limits

A(i) Borrowing by subsidiaries

3. Present nationalised industry statutes vary in the extent to which borrowing by subsidiaries is included within an industry's borrowing limit. A subsidiary is defined for this purpose as in Section 154 of the Companies Act 1948 meaning that the parent industry either:

i) controls the composition of the subsidiary's Board of Directors and has a shareholding; or

ii) holds more than half in nominal value of the subsidiary's equity share capital.

At present, some industries' borrowing limits include borrowing by wholly-owned subsidiaries; others exclude all borrowing by subsidiaries. Given that subsidiaries are by definition controlled by the parent industry, it is proposed that statutes should be amended to include within an industry's statutory borrowing limit all borrowing by subsidiaries. Transactions between the parent industry and its subsidiaries, and between subsidiaries, would be excluded.

4. In order that the provision should not hinder joint ventures or the introduction of private finance, the Secretary of State with the agreement of the Treasury would be able to exclude by Order from this provision any subsidiary that was not wholly-owned.

5. The provision would bear on the parent industry rather than on the Boards of subsidiaries or third parties. In organising its own borrowing, an industry would thus need to take into account borrowing by its relevant subsidiaries.

A(ii) Borrowing guaranteed by a nationalised industry or its subsidiaries

6. Nationalised industries or their subsidiaries (as defined under A(i) above and excluding those treated as not being in the public sector) may at times guarantee loans made by third parties to associated companies or other bodies. In order that statutory borrowing limits should reflect the total potential liabilities arising from borrowing that might fall on the Consolidated Fund, it is proposed that the extent of such guarantees should be totalled and included within the limits. The PAC has endorsed this approach and said that although borrowing limits may need to be increased to accommodate such guarantees, this will be no more than a recognition of the realities of the situation of which Parliament should be made fully aware.

7. The total potential liability arising from the guarantee would be included and, as in paragraph 5 above, the provision would bear on the parent industry.

A(iii) Types of non-standard "borrowing" and valuation of foreign currency borrowing

8. Some nationalised industries have limited access to forms of "borrowing" not included in the present legal definition of borrowing (e.g. acceptance credits). It is proposed that statutes should be amended to allow sponsor Departments in consultation with the

Treasury to specify by Order what forms of "borrowing" are included in statutory borrowing limits. This flexibility would be desirable to cater for new forms of borrowing that may emerge in the future although it would be made clear to industries that the inclusion of certain non-standard forms of borrowing did not imply that industries would be allowed general access to them. Statutory borrowing limits as well as including items under A(i) and A(ii) above, would include liabilities under acceptances (other than normal trade bills), obligations under finance leases and other indebtedness in the nature of borrowing. (Stock Exchange requirements when defining "indebtedness" in a prospectus are comparable).

9. Foreign currency borrowing can either be valued in sterling for the purposes of inclusion within borrowing limits at the rate which prevailed when the loan was first drawn down (e.g. as in British Airways legislation); or at current rates of exchange; or at rates set by the Secretary of State with the approval of the Treasury. Unless statutes define otherwise, current exchange rates have to be used except for loans covered by the public sector exchange cover scheme which are included at the guaranteed exchange rate set at the date when the money was borrowed.

10. For most industries foreign currency loans should be value at the current exchange rate, or guaranteed exchange rate if it is subject to the public sector exchange cover scheme, for that is the best prevailing estimate of the cost of repaying the loan. However, exceptional cases (such as British Airways) may arise in which foreign currency debt is so large a proportion of the total borrowing limit that exchange rate fluctuations might lead to inadvertent breaches. For such cases it may be necessary to use the draw-down rates for valuation. In order to provide sufficient flexibility to cover all cases it is proposed that the general statutory provision should allow the valuation method to be defined by the Secretary of State with the approval of the Treasury.

B - <u>Extension of Powers to Raise Finance</u>

11. It is proposed that industries' borrowing powers should be extended to permit sterling borrowing in the UK from persons other

than the Secretary of State, with the consent of the Secretary of State and the approval of the Treasury. As such it would permit the introduction of private finance into all industries.

12. This provision would be in part a reversion to practices prevailing some years ago, although the intention would be to allow borrowing only under closely defined conditions. Discussions in NEDC have developed criteria under which private finance might desirably be introduced and there is a need to ensure that any acceptable schemes that do arise are not blocked by legislation. There are several industries that have at present narrowly defined borrowing powers which exclude borrowing in the UK from persons other than the Secretary of State. These include the National Coal Board, the British Airports Authority and British Rail. There are other industries whose borrowing powers exclude some, but not all, forms of direct market finance (for example the British Gas Corporation and the Electricity Council may only raise such finance in the form of stock issues in their own names). The formula adopted would be based on that included in the British Telecommunications Act 1981 and give the maximum possible statutory flexibility while allowing the Government to retain control.

C - <u>Powers to Clawback Surplus Funds</u>

13. This provision would allow the Secretary of State by Order to require additional payments to the Exchequer where an industry has generated a surplus in excess of existing requirements and has repaid all its existing debt. It is only applicable to those industries which are likely to generate surpluses in the foreseeable future.

14. This provision reflects the Government's declared policy in response to the PAC's Twentieth Report for 1979-80, which expressed concern about the possible build-up by nationalised industries of realisable reserves not needed for investment, and advocated a system of payments to the Exchequer as an additional cash return on the public shareholding in the industry. The Treasury Minute replying to this Report (Cmnd 8125) explained that surpluses may arise in 3 possible circumstances. The first was where an industry was generating

a net cash surplus for purely temporary reasons - in which case these surplus funds would simply be placed elsewhere in the public sector so as to keep down the net financing requirement of the public sector as a whole. The second and third cases arose where an industry generated a surplus not just temporarily but over a period of years. Where such an industry still had debt to pay (the second case) this surplus would be used to repay debt, against the background of a negative external financing limit. But where an industry has repaid all its debt, or is contractually unable to speed up its repayment of such debt as does remain, the Government has acknowledged the case for additional payments to the Exchequer. In some cases, powers to require such additional payments already exist.

D - <u>Power to Set Financial Targets</u>

15. All statutes should permit the Secretary of State, with the approval of the Treasury, to determine such financial objectives as he considers reasonable in any given period; and should require the industry to conduct its affairs with a view to achieving these financial objectives.

16. Several industries' statutes already contain this power, and it is proposed to extend this to remaining industries. Although it is preferable for financial targets to be established on the basis of voluntary agreement between Government and the industry, there may be circumstances in which the Government finds it necessary to impose a target for policy reasons, and to compel an industry's compliance with it. It should be made clear in statutes that the setting of any statutory financial target takes primacy over any existing statutory break-even duty.

E - <u>Control over Content and Form of Report & Accounts</u>

17. It is proposed that all statutes should contain power to direct the matters to be covered in industries' annual reports and statements of accounts. Such powers, together with existing provisions that allow the form of accounts to be specified would permit the

Secretary of State, after consultation with the industry and with the consent of the Treasury, to specify the information to be contained in the annual report and statement of accounts; the manner in which the information is presented; and the methods and principles according to which the accounts are prepared.

18. Although it is not the intention that Secretaries of State should prescribe in detail what industries' Reports and Accounts should contain, there is however certain minimum information (e.g. key statistics, performance against targets and aims, items from Corporate Plan) which industries should be required to incorporate. The more recent nationalised industry legislation is satisfactory so far as powers over the form of accounts are concerned but, in most cases, the Government cannot direct what information should appear in accompanying reports. It is not intended that this provision should be onerous and disruptive; it would be an enabling measure allowing the subsequent issue of directions only as and when necessary.

F - Powers over the Creation and Disposal of Subsidiaries

19. This provision would permit the Secretary of State to direct an industry to establish a wholly-owned subsidiary and to transfer assets to it. It would also allow directions to be given requiring the disposal of all or part of such subsidiaries. In concert these powers could be used to require that existing subsidiaries are put in a suitable state for privatisation and to require an industry to put into a subsidiary activities or assets which it itself at present carries out with a view to subsequent disposal or the introduction of private finance.

20. Some recent legislation (e.g. Transport Acts 1981 & 1982) includes comparable powers. Inclusion in legislation would carry no connotations of how and when such powers might be used but would ensure that opportunities which might arise are not blocked.

21. It is also proposed that industries be required to obtain the Secretary of State's consent before disposing of any subsidiary or a substantial interest in it. This would be a precautionary provision

to ensure that Ministers can influence such disposals as and when they arise. A general power would be sought leaving the specifying of detail to administrative direction, with a de minimis provision to exclude insignificant activities. It would be important to make clear that any consent requirement did not mean that the Secretary of State necessarily took responsibility for the terms on which a disposal was carried out.

TREASURY CHAMBERS
Parliament Street
LONDON SW1

Nat Ind
JV

NB PM

MLS 20/1

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Lord Cockfield
Secretary of State
Department of Trade
1 Victoria Street
London SW1H OET

19 January 1983

Dear Arthur,

BRITISH AIRPORTS AUTHORITY: OBJECTIVES

Thank you for your letter of 17 December enclosing the corporate plan objectives agreed by the BAA Board. I am glad to note that they are broadly in line with those we agreed earlier in the year. Since that is so, I am inclined to agree that there would be no point in pursuing the legal issues which have been raised any further at this time. Obviously, if severe problems of this kind are experienced with other nationalised industries, we may need to think again. But for the moment it looks as though the BAA, because of the litigation by the American airlines, is in something of a special position.

I agree with you about the importance of quantified performance aims and I trust that your forthcoming discussions with the BAA Chairman will result in the adoption of suitably challenging aims for this growing industry.

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

Yours,
Leon

LEON BRITTAN

Nat Ind: Policy Towards Nat Ind Pt 8

JH 631

CONFIDENTIAL

Robin Butler

cc JV

FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

KENNETH BAKER

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 6403
SWITCHBOARD 01-212 7676

14 January 1983

The Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Parliament Street
London SW1P 3AG

NBPM
MLS 14/1

Dear Leon,

NATIONALISED INDUSTRY INVESTMENT APPROVALS

see pt 7

In his absence overseas Patrick Jenkin has asked me to thank you for your letter of 23 December and to reply on his behalf. I am content as far as the Post Office and National Girobank are concerned and will issue the formal approval.

2 As you know we have re-opened the question of British Telecom's EFL for 1983/84 with Sir George Jefferson. One concern we have stressed is whether the fixed asset figure is realistic given this year's undershoot. Consequently I do not intend to give the 100% approval to the programme until we have completed our reconsideration of BT's prospects for next year.

3 Copies of this go to those who received copies of your letter.

Yours ever
Kenneth

KENNETH BAKER

NAT. IND. POLICY: PG8.

cc JV
Nat Ind
11/1

DEE

RESTRICTED

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

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

10 January 1983

Dear Geoffrey

PROGRAMME FOR CORPORATE PLAN DISCUSSIONS: 1981

Thank you for copying to me your letter of 13 December to Patrick Jenkin. I am content with the programme proposed.

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

Ever

David

DAVID HOWELL

RESTRICTED

SCS2

NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

11/1

SECRETARY OF STATE FOR SCOTLAND

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

7 January 1983

Dear Geoffrey,

PROGRAMME FOR DISCUSSION OF CORPORATION PLANS: 1983

I have seen a copy of your letter of 13 December to Patrick Jenkin about the timetable for the consideration of corporate plans in E(NI).

I would confirm that I am content with the proposal to discuss the corporate plans of Scottish Electricity Boards in February-March and the Scottish Transport Group in June. I should explain, however, that we are still discussing the format of their corporate plans with the Scottish Electricity Boards and both these and the Performance and Corporate Plan review are likely to be transitional in nature.

I am copying this letter to our E(NI) colleagues, Sir Robert Armstrong and John Sparrow.

Yours ever,

George.

CONFIDENTIAL Nat. Ind

JH 586

Prime Minister (2)

There will, no doubt, be comments from the Treasury and CPRS.

MCS 6/1

PRIME MINISTER

PROGRESS IN IMPLEMENTATION OF CPRS REPORT ON RELATIONS BETWEEN GOVERNMENT AND NATIONALISED INDUSTRIES

It was decided at the E(NI) Committee meeting on 8 September that sponsoring Ministers should report at the end of November on progress in implementation of the major recommendations (other than those concerned with increasing expertise in Departments).

2 Below I give an account of the position in relation to each of the industries sponsored by my Department.

The Post Office

3 In the case of this industry I was asked to report on the improvements achieved in monitoring the business and on the longer term intentions for the size and structure of the board.

4 So far as monitoring arrangements are concerned these have worked reasonably well in the past, but in the light of the CPRS report attention has been given to obtaining supplementary details where these would be useful and would not involve undue extra work. Agreement has been reached with both the Post Office (Postal business) and with National Girobank on the provision of certain extra information, such as, for example, a

quarterly return of expenditure and progress on major individual capital projects. Taken with the established monitoring criteria, there should now be enough input to enable my officials to keep their fingers on the pulse of the two businesses concerned.

5 Turning to the question of composition of the Board the statute allows for 12 members although at present there are only 11. The Chairman does not wish to increase the size of the Board, though should he choose to do so, it is likely that he would be inclined to fill the vacancy with a part-time member. Until the end of July of this year, the Board consisted of 7 full-time and 4 part-time members. In August, however, with the retirement of a full-time member, the Chairman, having regard to Ministers' wishes, appointed a further part-time member in his place giving the current composition of 6 full-time executives and five part-time members.

6 This seems to me to be about right, and I feel it unnecessary to press the Chairman to make further changes. The Post Office Board was reconstituted just over a year ago, following the split of the old Post Office. Its structure was designed with the streamlining of senior management in mind, and the presence of full-time members for each of the most important features of the business has enabled the Chairman to cut out by September of this year the two most senior management levels on the postal side. The "executive", in addition to the Chairman, now covers the areas of: Girobank; Finance; Industrial Relations;

JF2350

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Operations; and Marketing. In a labour intensive business crucially dependent on operation efficiency and traffic volume, it is difficult to see how the number of full-timers could be reduced further.

British Telecom

7 As with the Post Office I was asked to report on improvements achieved in monitoring and the size of the Board.

8 On monitoring, we remain very dissatisfied with the scope, timeliness and quality of information received from BT. While we have succeeded in getting some additional information on an ad hoc basis, there is a real problem over the inadequacy of BT's own internal management accounting systems. As you know, E(NI) has been considering whether it would not be right to subject this to scrutiny by the Monopolies Commission, but, partly because it was likely that such a scrutiny would seriously disrupt the proposed timetable for privatization, and partly because the Board was already vigorously tackling BT's management deficiencies with the assistance of outside consultants, E(NI) decided (E(NI)(82) 10th Meeting) that the disadvantages of this course outweighed the advantages. Instead, I was asked to discuss in detail with the Board how the existing work could be sharpened and strengthened so as to cover comprehensively the deficiencies which need to be remedied. Apart from considerations of good management, it will be essential to have a much better system in place before shares in BT can be offered to the public. Further, my officials, after consulting the Treasury and CPRS, are making a new series of requests of the Corporation in an effort to improve next year's medium term plan.

9 On the composition of the Board, BT currently has a chairman, Deputy Chairman, 6 Executive members and 4 non-Executive members. Thus the Board would appear in the light of the CPRS view to be a little large and to have too many Executive members. There is,

however, limited scope for altering this before BT becomes a PLC, since only one of the present Executive members' appointments (that of the Board's senior engineer with responsibility for major systems) ends before mid 1984 and even here there is the possibility that there will prove to be a case for replacement at Board level.

10 I am also expecting to be able to conclude arrangements shortly to replace the present Deputy Chairman, by, I hope, an outside candidate with the potential to become Chairman. In any event I will want to consult the Chairman closely.

British Steel Corporation

11 I was asked to bring forward proposals on the size and structure of the Board and timing of progress.

12 At a meeting with Mr Ian MacGregor on 7 December I discussed this issue with him and suggested a radical reconstruction of the BSC Board involving the removal of the employee and Civil Service directors, and a better balance between executive and non-executive directors.

13 He has agreed to my proposals, and the existing terms of office of BSC's employee directors which are due to expire at the end of 1982, will be extended for 6 months only.

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British Shipbuilders

Board Structure

14 I think it unlikely that for BS we could make any significant moves towards the sort of Board structure recommended by the CPRS, given the Divisional structure of the Corporation and the present Chairman's views on Board structure.

Sir R 15 ~~Mr~~ Atkinson feels that the Chairman's role should be an executive one but that he should in future have the support of a separate Chief Executive; and that the heads of the five Divisions should be included on the main Board. With a Member for Finance (currently also heading the Shiprepair Division) and one for Industrial Relations, this brings the number of executives to at least 7 (without counting the new Chief Executive post).

16 To have a majority of non-executives would mean a rather large Board (currently the BS Board has 14 members but it has been larger). It is also extremely difficult to find good non-executive candidates willing to take the job on and I frankly doubt we could get enough to make a majority.

17 In any event, I think it would be inappropriate to start tinkering now with the BS Board structure. Mr Atkinson's appointment expires at the end of next year and I would certainly want to take the views of an incoming Chairman before pressing for any changes. Moreover, in addition to the Chairman's appointment expiring, the BS Board is facing a complete change at the top over the next 12 months and I must concentrate on filling these vital jobs first:

1) John Parker, the Deputy Chief Executive, is leaving for Harland and Wolff in the New Year; his post is a crucially important one for the Corporation;

2) Both Deputy Chairmen's appointments expire in 1983. In future there will only be one Deputy Chairman;

3) The non-executive side of the Board urgently needs strengthening.

I propose, therefore, to leave the issue of BS Board structure for the moment and return to it when I have a firm candidate for Chairman-designate.

<u>Monitoring</u>

18 Following a remit placed on them by E(NI)(82)7th, the CPRS had a number of discussions with DOI and other Departments'

officials on the monitoring of British Shipbuilders' performance. CPRS were broadly content with the Department's approach to BS monitoring and agreed with the Department the areas where BS should continue to be pressed for further information. In particular it was agreed that BS should be pressed to provide a rolling quarterly cash flow forecast (ie it should not stop, as at present, at the year end); a reconciliation between corporate forecasts and the forecasts made by the subsidiary companies; and phased budgets. Following interdepartmental discussion of BS's latest quarterly performance report, a meeting will be held with BS shortly to discuss the report and how monitoring should be further developed.

Rolls Royce

Board Structure

19 The CPRS's recommendation for a greater proportion of non-executive directors was dismissed by Lord MacFadzean earlier this year as inappropriate to Rolls Royce. There seems no point in raising this matter with him again, but I will raise the matter with Mr Duncan, the Chairman designate as soon as possible.

Objectives

20 In the light of discussions with Mr Duncan objectives for

CONFIDENTIAL

Rolls Royce have been drafted. It is my intention to write to Mr Duncan shortly to invite him to accept these objectives as his charge.

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

PJ

P J

5 January 1983

Department of Industry

Nat Ind, Policy, Pt 8

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

cc JV

Nat. Ind

NBPM

MES 6/1

From the Secretary of State

RESTRICTED

John Kerr Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

5 January 1983

Dear John,

PROGRAMME FOR DISCUSSION OF CORPORATE PLANS 1983

Lord Cockfield has received a copy of the Chancellor's letter of 13 December to the Secretary of State for Industry.

We are content with the proposed arrangements.

I am copying this letter to the Private Secretaries of the recipients of the Chancellor's letter.

JOHN RHODES
Private Secretary

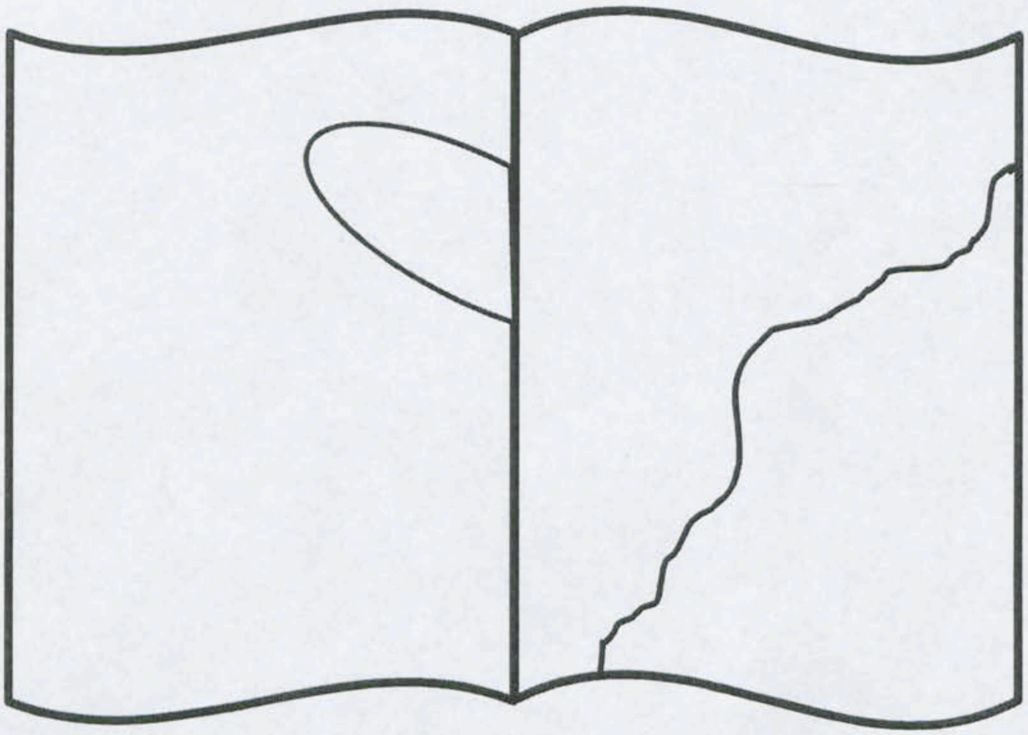
RESTRICTED

Nat Ind

Policy

[illegible]6 JAN 1983

SPECIAL NOTICE



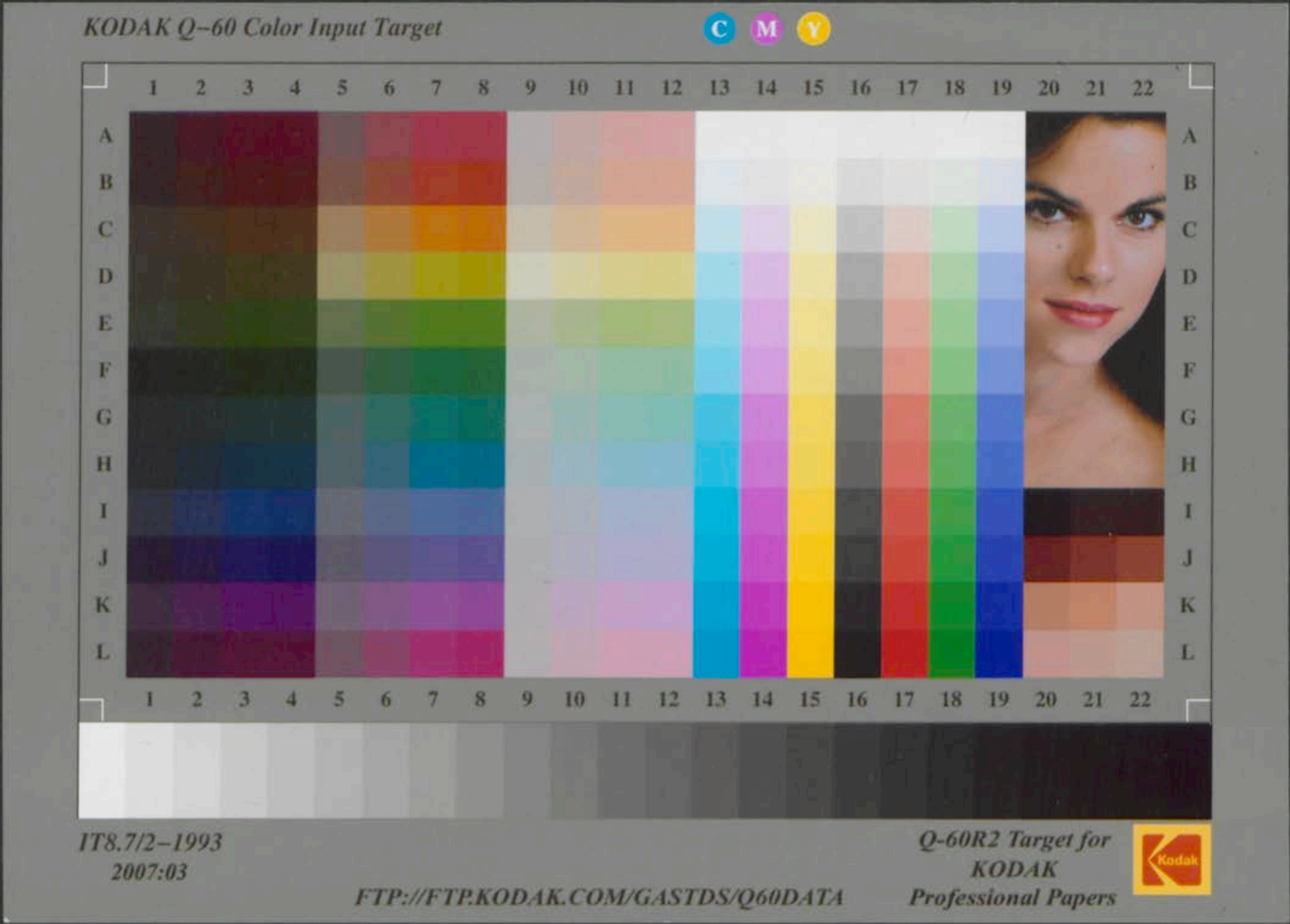
DAMAGED TEXT - INCOMPLETE IMAGE

PART 7 ends:-

31-12-82 (HMT - En.)

PART 8 begins:-

DOT to HMT 5/1/83


KODAK Q-60 Color Input Target
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