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NOTE OF A MEETING HELD IN THE CHANCELLOR OF THE EXCHEQUER'S ROOM,
HOUSE OF COMMONS

Present:

Chancellor of the Exchequer
Secretary of State for Industry
Secretary of State for Transport
Minister of State for Energy

Mr Ryrie)
Mr Burgner) H.M. Treasury

Sir Donald Maitland - Department of Energy

Mr Croft - Department of Industry
Mr Young - Department of Industry

NATIONALISED INDUSTRIES AND THE CPRS REPORT

The Chancellor said he had felt it would be useful to have a relatively informal discussion in advance of the meeting of E(NI) the following week on some of the central issues raised by the CPRS Report on the relationship between government and the nationalised industries. These issues seemed to him to be first the nature of the relationship itself - was the government to be seen as holding company, banker or both and secondly the relationship between the nationalised industries, their sponsor departments and the centre (Treasury/CPRS unit) and the organisational arrangements within each. He had the impression from the initial responses of sponsor Ministers that the business group idea suggested by the CPRS did not greatly commend itself to them; though it seemed to be generally agreed that action was needed to bring in business expertise and experience. It was his intention to strengthen the Treasury in this way.

2. The Minister of State for Energy said that the Secretary of State for Energy was by no means wholly critical of the idea of business groups, and indeed thought the idea had some merit. He believed it was most important to build up expertise at middle and senior management level in the relevant divisions of the department though at least ten

/extra posts were required



extra posts were required which presented difficulties in present circumstances. The Department was looking to see whether room for these additional posts could be found by savings elsewhere. He added that Mr Lawson regarded the Treasury role as absolutely vital, and believed there was scope for it to improve its organisation and performance in this area.

3. Sir Donald Maitland commented that in his view the essential responsibility for the relationship with a given nationalised industry should remain with the division concerned in the sponsor department. Clearly it was right that the divisions' expertise should be built up as much as possible; and it would be to the overall benefit if the essential Treasury role became more effective and prominent and if it had more resources to deploy.

4. The Secretary of State for Transport said that while he was sure that the changes proposed by the CPRS would help to strengthen parts of the chain in a way which was necessary, in his experience the fundamental problem was not really between the nationalised industries and departments, but arose when decisions became collective ones. Because such decisions were often taken for short-term reasons they could lead to sudden switchback decisions which led to an atmosphere of neurosis of the worst kind and interruption and impairment of the relationship built up between the sponsor department and the nationalised industry Chairman. It was most important that at the collective level decision taking should be properly informed, and based on an appraisal of long-term objectives rather than short-term or political considerations. For this reason he believed that the new Ministerial committee supported by a strong secretariat and advisory unit in the CPRS would be an important step forward.

5. The Secretary of State for Industry argued that the key to better monitoring of the nationalised industries must lie in better definition of the objectives which they were being asked to attain. At present the Government appeared to intervene in the affairs of the industries in many different ways and often with conflicting objectives. In his

/view the aim should be



view the aim should be to state a business objective for the industry - on growth, prices, investment and productivity - and then monitor progress against it. He saw no reason why the organisational arrangements for supervising and monitoring the industries should not differ between departments reflecting different circumstances and he saw no advantage in imposing a uniform pattern. The great weakness in the system at present was the lack of effective means of bringing pressure to bear on the industries when they failed to meet their objectives.

6. The Chancellor commented that at present collective Ministerial discussion of the industries tended to take two forms - first a look at particular industries: at the moment they faced a particular problem and an urgent decision was needed; and secondly in the course of the annual investment and financing review when investment allocations and EFLs had to be decided, together with quarterly monitoring throughout the year. What was missing was the opportunity to look at the industries in turn to give the Government as owner a better understanding of performance and prospects. This would involve measuring performance overall against agreed objectives, considering trends in pay pricing and productivity, cost control and financial performance. He envisaged that one possibility might be to have systematic reviews of each industry by E(NI) Committee on an annual basis; the Chairman and Board would come before the Committee for a detailed discussion of performance over the last year and aims and objectives for the coming year. This should lead to a much better understanding on both sides, and to a better informed collective decision taking when particular problems came up. This should mean fewer sudden and disruptive switches in policy, and the building up of a far better relationship between Chairmen, sponsor Ministers and Ministers collectively.

7. The Secretary of State for Transport suggested it was important to be clear whether it was intended that more decisions to do with the running of the industries should be taken collectively in future rather than by the sponsor Department. He believed this would be a mistake; the collective input should be on the broad assessment of



priorities and objectives, and measuring of performance, but once this was done the collective group should stand back and let individual departments develop relations with their industries on a consistent basis. One important point which had been neglected so far in discussion was the domination of nationalised industry Chairmen by the trade unions. A constant and inevitable constraint on their freedom of action was how far they could go without a major crisis with the unions; and this question ought to be given sufficient weight at the centre.

8. The Secretary of State for Industry said that one way of improving the accountability of nationalised industry Chairmen for meeting the objectives set for their industries might be to make their remuneration dependent on their relative success or failure. It was also important to seize the opportunity when new appointments were made of making quite clear what the objectives were and what was expected of the new appointee. Part of the requirement might be for the Chairman to produce definite plans for hiving-off and privatisation rather than as so often in the past deliberately making progress in this area more difficult.

9. The Chancellor summing up said some interesting ideas had emerged at the meeting which could be taken further at the meeting of E(NI) the following week. In particular there was support for the idea of a collective appraisal of individual industries by E(NI) Committee which might involve an annual meeting between the Committee between the Chairman and Board of each industry. It had been generally agreed that while steps should be taken to improve the business experience and expertise of divisions in sponsor departments and at the centre; but the really crucial area was the general relationship between government and the industries particularly at the collective level.

Those present

cc CST
 FST
 MST(C)
 MST(L)
 Sir D Wass
 Mr Ryrie
 Mr Quinlan
 Mr Byatt

Mr Burgner
 Mr Christie
 Mr Kemp
 Mrs Case
 Mr Norton
 Mr Wicks
 Mr Ridley
 Mr Cropper
 Mr Harris

29 OCT 1981

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 P S JENKINS

28 October 1981