

Ref. A05844

PRIME MINISTER

Follow-up to CPRS Report on Nationalised Industries

E(NI)(81) 2, 3 and 4

BACKGROUND

folder 1 folder 3 folder 2

When the CPRS Report on the Nationalised Industries was discussed at your meeting of Ministers on 4 August, one of the main recommendations accepted at that time was that there should be a new Ministerial Committee under your chairmanship to deal with the nationalised industries. This is the first meeting of that new Committee, whose terms of reference (E(NI)(81) 1) are:

"To keep under review the Government's general policy towards the nationalised industries and major publicly-owned companies, to consider the objectives and monitor the performance of each of them, and to deal as necessary with specific major issues affecting them."

HANDLING

2. There are three papers:

E(NI)(81) 2: A paper by the CPRS on outstanding recommendations (ie those not already specifically approved on 4 August or those such as improving business understanding in Departments, and efficiency audits which are to be discussed at E(NI)'s next meeting).

E(NI)(81) 4: A paper by the Chancellor of the Exchequer on the need for a change in attitudes and on the proposals for improving the review of industries' performance and the assessment of their investment programmes.

E(NI)(81) 3: A paper by the CPRS on the handling of the Report (ie the question of publication, and the arrangements for discussion with nationalised industry chairmen).

Although the papers are linked, it will be convenient to take them separately in the order listed on the agenda.

E(NI)(81) 2: Outstanding Recommendations

3. You may like to ask Mr Ibbs to introduce the paper. The first two paragraphs deal with the recommendations already in hand and do not require discussion. The remainder of the paper seeks endorsement of the other CPRS recommendations, and proposals on next steps. The Committee will need to go through them one by one, under three headings:

- (i) Principally for Government There are three matters for on-going work, where the paper is reasonably self-explanatory and only needs the Committee's broad endorsement at present. The first, monitoring, links with the wider Treasury concern about better information and could be discussed in that context.
- (ii) For Immediate Consultation with Chairmen The handling paper proposes this as the next step, and includes a draft discussion document dealing with the three points here (as well as the need for better information). The most important is recommendation 6, on clearer responsibilities for non-executive Directors. The Committee should be asked to endorse these in principle, but not spend time now on detailed drafting.
- (iii) Others A mixed bag, with notes on proposed handling, which the Committee will again need to consider individually but can probably endorse without much difficulty. The last (payment by results) is the subject of a separate submission of 19 October, proposing a CPRS study.

E(NI)(81) 4: Chancellor of the Exchequer's Paper on Next Steps

4. The Chancellor of the Exchequer might be invited to introduce his paper. He is concerned to emphasise the major change of attitudes needed in Departments and NIs, and hence the need for personal commitment by Ministers to bring this about. This will mainly arise in implementing the CPRS proposals, but the paper also seeks agreement to two further proposals:

- (i) A systematic review of the performance and prospects of each major industry, with a report to E(NI) each spring. This is consistent with the CPRS Report, which emphasised the need to focus on each industry's corporate plan and to review strategic objectives and options.

- (ii) Improving knowledge of industries' investment appraisal and resulting investment programmes. The Treasury will be in the lead, and propose to add to their present staff a small number of specialists for the purpose.

Both these will need better information and closer co-operation from the industries, reflected in the document for discussion with chairmen.

E(NI)(81) 3: Handling of the CPRS Report

5. Mr Ibbs might introduce the paper. The first issue to be settled is whether the Report should be published. The main argument against publishing is that, in its original form, the Report would probably not further the Government's objective of securing a more effective relationship with the nationalised industries. The Chancellor's paper acknowledges that relations with the chairmen are not good and the new arrangements will not work unless the chairmen understand the need for them and co-operate whole-heartedly. Time and energy ought not therefore to be wasted on arguing about words used in a report by the CPRS which was intended to be confidential advice to Ministers. But I agree with Mr Ibbs that an attempt to bowdlerise the whole Report would produce a feeble document. The CPRS proposes instead a short document for discussion with the nationalised industry chairmen. The document may leak and if, at some stage, a Government statement is needed - preferably when the consultations have made progress - it could form the basis of such a statement.

6. If Ministers agree that the Report should not be published and that there should instead be a document for discussion with the chairmen, they should then consider, in general terms, the content of the discussion document and the Annex to E(NI)(81) 3. If they approve it, subject to detailed drafting points (which you could invite Ministers to send to Mr Ibbs in writing), they should go on to consider the arrangements for the discussions, both initially with the Chancellor in the lead and subsequently between sponsor Ministers and their respective chairmen, as proposed in paragraphs 6, 7 and 8 of E(NI)(81) 3, with a view to securing agreement by chairmen on a programme for implementation of the main recommendations by end January.



7. Finally paragraph 9 of E(NI)(81) 3 suggests how the very important process of settling objectives for each industry can best be carried forward. Ministers are asked to bring draft objectives for each industry to E(NI) for approval before discussion with the chairmen.

CONCLUSIONS

8. In the light of the discussion on the three papers you will wish to reach conclusions on the following issues:

- (i) Whether the outstanding recommendations in the CPRS Report listed in E(NI)(81) 2 should be endorsed in principle and handled on the lines proposed in that paper.
- (ii) Whether the Chancellor of the Exchequer's proposals in paragraph 11 of E(NI)(81) 4 should be approved (ie a systematic annual review of each industry, better arrangements about investment programmes, and a change in attitudes).
- (iii) Whether, as proposed in E(NI)(81) 3, the CPRS Report should not be published but ~~that~~ there should be a discussion document on the lines of the Annex to that paper, and the arrangements for further discussions should be as set out in paragraph 10 of the paper.

ROBERT ARMSTRONG

30 October 1981

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CHANCELLOR OF THE EXCHEQUER

c.c. Chief Secretary
Mr Ryrie
Mr Quinlan
Mr Burgner
Mr Locke

The CPRS Report: State of Play on Recommendation

You asked for a summary setting out the state of play on each recommendation, including those agreed at Ministers' 4 August meeting, those for discussion today (the majority, indicated by E(N1)(81)2 in the summary below) and those referred to the next meeting (business groups and efficiency audit).

AFC

A F CASE
2 November 1981

EXTRACT FROM CPRS REPORT

J Summary of Recommendations

84. The Full list of our recommendations appears below; the numbers in brackets indicate the paragraphs where the recommendations appear in the report:

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|--|---|
| <p>1. Government to set clear <u>objectives</u> (20-24) to be quantified through the <u>Corporate Plan</u> and <u>annual budget</u> (25-27).</p> | <p>Agreed in principle / 4 August meeting</p> |
| <p>2. Government to <u>monitor</u> performance against objectives employing an improved <u>information system</u> (29-30) similar to those used by large private sector companies.</p> | <p>E(N1)(81)2. <u>Accept</u> subject to detailed consideration by officials and further consideration by Ministers. Must be covered in the document for discussion with the NICG.</p> |
| <p>3. Boards of the more 'monolithic' industries to try, as far as sensible, to break up the structure into smaller <u>profit centres</u> (31).</p> | <p><u>Agree</u></p> |
| <p>4. Reorganisation of the Electricity Supply Industry to be considered (32).</p> | <p>E(1)(81)2 <u>Agree</u>, perhaps link with study of recommendation below.</p> |
| <p>5. Boards ^{be} to be resturctured so as to <u>smaller</u> (37) and to contain a <u>majority of non-executive directors</u> (33) but, in normal cases, <u>not including civil servants</u> (39)</p> | <p>Smaller, non-executive Board <u>agreed</u> on 4 August. No new appointments of Civil Servants but leave existing ones until new information flow achieved.</p> |

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6. Responsibilities of non-executive directors of State (34) and to include the operation of an Efficiency Audit Committee (36) and advising on Board appointments and salaries (34)

E(N1)(81)2 Accept

7. A few senior executive positions in certain industries to be filled if possible by outside appointment (40).

E(N1)(81)2 Accept in principle

8. Executive directors to be encouraged to take non-executive directorships in the private sector (40).

E(N1)(81)2 Accept

9. Industries not fully exposed to competition to be subject to regular external efficiency audits (41), to be carried out for the time being by the MMC and management consultants (44), with an emphasis on proposals for implementation (41 and 44) on which the Efficiency Audit Committee of the Board can check that appropriate executive action is taken (45)

To be discussed at next E(N1) meeting, together with report from NIP.

10. In the longer term, particularly if Ministers decide to explore the possibilities for independent regulation, the arrangements for efficiency auditing to be subjected to a fundamental review (43).

E(N1)(81)2 Agree in principle but suggest clearer view needed on scope (eg should study cover alternatives other than regulation

11. The Chairman of the Board, where possible, to be separate from the chief executive (50), and, in some of the smaller and simpler industries, to be a part-time appointment (47).

12. The Secretary of State to obtain acceptance from the Chairman, before appointment, of the strategic objectives for the industry (50) but to refrain from detailed interference (48): the possibility of linking Chairman's pay to the performance of the industry to be considered (49).

13. Government to encourage Boards by praising good performance (51) and by planning appointments and re-appointments earlier (52), and to support the Boards closely in their efforts to deal with problems of union power (53).

14. Each of the main sponsor Departments to set up a Business Group (65-68), to be staffed by officials with a more specialised career progression (71) plus a few secondments from the business world (69), such staff to spend longer in each post

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E(N1)(81)2 Agree in principle

4 August meeting agreed on objective CPRS have been asked to look at pay/performance link.

E(N1)(81)2 Accept. Suggest there may be a case for regular review of Board performance, including CSI

To be considered at next meeting. CPRS may put in further paper.

than at present (70) and to be led by a second Permanent Secretary (72) who, in the first instance, would be a senior and respected businessman (73); the precise form of the Business Group to be designed by each sponsor Department in the light of its particular requirements.

15. If recommendation 14 does not find favour with Ministers collectively, then each of the main sponsor Departments to be asked to review its internal organisation for supervising its industries and to report back to the Ministerial Committee within a specified time with firm proposals (76); this review to consider effective means for bringing more business expertise into the Department's dealings with industries, for establishing clearer objectives, for better analysis of strategic options, for more skilful monitoring of performance and for exerting stronger pressure for efficiency (56); the review to take account of the CPRS suggestions about Business Groups.

To be considered at next meeting.

16. A Ministerial Committee to be formed to oversee policy for Nationalised Industries (77).

Agreed on 4 August

17. The Committee to be supported by a small Review Staff with business expertise based in the Cabinet Office (78) and the secretaries to be provided jointly by the Review Staff and the Treasury (79).

Agreed in principle on 4 August

181. A Ministerial Committee
to be formed to oversee
policy for National
Industries (2)

182. The Committee to be
appointed by a small
Review Panel with

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business agencies and
in the Civil Service
(2) and the Secretary
to be provided jointly
by the Review Panel and
the Treasury (2)

Agreed on 14/10/81

Agreed in principle on 4/10/81



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Pat G...

CONFIDENTIAL

PRIME MINISTER

E(NI): CPRS REPORT ON THE NATIONALISED INDUSTRIES

I am sorry that I shall not be able to attend the first meeting of E(NI) this afternoon, because of an unbreakable commitment in Scotland this evening. I wish to let you know that I am in general agreement with the proposals in all three papers on the agenda. In particular I support the view in the CPRS Note E(NI)(81)3 that it would be inadvisable to publish the report, even in edited form.

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

A.Y.

2 November 1981



FHB

West Ind

10 DOWNING STREET

From the Private Secretary

12 October 1981

Dear Sir,

Relationship between Government and
the Nationalised Industries

The Prime Minister has seen and noted the replies to her personal minute of 4 August to your Secretary of State on this subject.

I understand that this issue has now been placed on the agenda for a meeting of E(NI) at the beginning of November.

I am copying this letter to John Kerr (HM Treasury), Julian West (Department of Energy), Muir Russell (Scottish Office), Ian Ellison (Department of Industry), Tony Mayer (Department of Transport), David Edmonds (DOE), David Heyhoe (Lord President's Office), David Wright (Cabinet Office) and Robin Ibbs (CPRS).

Yours sincerely,

Michael Scholier

John Rhodes, Esq.,
Department of Trade.

Rhb

Nat Ind
Policy

PRIME MINISTER

cc Mr. Whitmore

You have agreed to chair a sub-committee of E on nationalised industries. The first meeting of this has to be during the week of the opening of Parliament. I assume you would rather have a meeting on Monday 2 rather than Tuesday 3 November when you will be busy preparing your speech for the following day. The disadvantage is that there is a meeting of E in the morning but on balance it seems a better idea than the Tuesday.

Agree?

Yes no

El.

Spoke to Barry
Hickman to confirm.

El. 12/10.

9 October 1981



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Secretary of State for Industry

13 November 1981

Robin Ibbs Esq
Central Policy Review Staff
Cabinet Office
Whitehall

Dear Robin,

I am writing with a few comments on the paper drafted for circulation to Chairmen of the nationalised industries in advance of Ministers' meeting with the NICG to discuss your report on the relationship between Government and the nationalised industries.

2 The public relations side of this is important and I suggest that the document sent to the Chairmen, while being completely clear about the Government's conclusions, should emphasise that these are not to be imposed on the industries and that there will be negotiation. The document might also say that the Government would welcome initiatives from the industries themselves on such matters as objectives and monitoring systems.

3 I think the draft paper places too much emphasis on the monopoly position of some industries and too little on the diversity of the industries. I think your paragraph 15 might go to the beginning of the paper and that minor points, for example the point about outside directorships for NI board members, could be omitted at this stage. There might also be a sharper distinction between the issues which require early discussion and those (such as the size and composition of boards) which can be dealt with only over a fairly lengthy timescale.

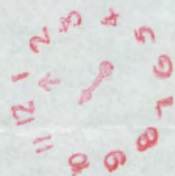
4 One possible way to achieve the change of emphasis I have in mind would be to make relatively little change to the paper itself but to make any presentational points in the covering letter the Chancellor will no doubt be sending.

5 I should perhaps mention that, although the Chairmen of BL and Rolls Royce do not belong to the NICG, they should be sent the paper and invited to the NICG meeting, since the CPRS Report covers relations with them.

6 I am copying this to the Prime Minister and other members of E(NI).

Yours ever
Patel

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NBPTM

A. Walton
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12 November 1981

CPRS REPORT ON NATIONALISED INDUSTRIES

E(NI) Committee agreed on 2 November that comments on the draft paper attached to E(NI) (81)3 should be sent to you as soon as possible. The attached note lists my detailed suggestions.

My main suggestion is that we should delete paragraph 3 of the draft note which lists "fundamental factors constraining the performance of the nationalised industries over the past decades." While sympathising with the analysis, I believe that we would be unwise to send the Chairmen a note stating explicitly that the difficulties stem from, "a failure of communication", "the impact of political decisions" and "the absence of agreement on a clear strategic framework." Should there be differences in future between us and the industries, the Chairmen would be able to defend their own position by quoting these factors back at us..

Similarly, I should like to see the first two sentences in paragraph 5 toned down. The present draft overstates the importance of clear objectives in avoiding difficulties with the industries, and also goes too far in suggesting that their objectives have in all cases been insufficiently clear in the past. As with paragraph 3, this could be used against us in future.

SUGGESTED AMENDMENTS TO NOTE FOR NICG

- Para 3 - omit
- Para 4 - (As a consequential of deleting para 3,) first sentence; delete "these underlying", substitute "all": second sentence; delete "the" before "difficulties".
- Para 5 - first two sentences to read, "A satisfactory relationship between Government and the industries requires that there should be clarity of objectives. Policy towards the industries needs to look well ahead." (Also, delete "Greater" from the sub-heading immediately before paragraph 5).
- Para 10(iii) - extend to read "to identify the need for outside efficiency audits and to ensure that external efficiency audits, whether undertaken by the MMC or by any other body, are followed up" (This reflects the discussion we had on the outstanding recommendations).
- Para 10(iv) - delete
- Para 10(v) - delete
- Para 13 - add, at the end of the sentence suggesting that executive Board members should be encouraged to take up outside directorships, the words "to the extent that the Secretary of State considers, in the individual cases, that this is compatible with their prior commitments to their Boards".

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On paragraph 10, I think it is important in (iii) to say explicitly that the MMC is not the only body to be used for external efficiency audits since the language in paragraph 9 could, by itself, give the opposite impression. I should also like to see the deletion of 10(iv) and 10(v). Sponsor Ministers should certainly be free, if they so wish, to ask non-executive Directors for advice on appointments and executive Board members' salaries; but it seems to me undesirably restrictive to suggest that the non-executives have a special role since, in many cases, we will not wish to follow their advice.

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

*Your sincere
Nigel Lawson*

NIGEL LAWSON

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NAT INDS
NBPM



Robin Ibbs Esq
Central Policy Review Staff
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10 November 1981

Dear Mr Ibbs,

NATIONALISED INDUSTRY EFFICIENCY

E(NI) agreed at its meeting on 2 November that comments on the draft paper attached to E(NI)(81)3 should be sent to you as soon as possible. I now understand that these are required by today (10 November).

Mr Howell is generally content with the draft paper as a basis for discussion with the nationalised industry chairmen, with the amendment to paragraph 9 which Mr Bailey has suggested to members of the Official Committee on Nationalised Industry Policy.

He has, however, a drafting suggestion on the section, at the end of paragraph 9 and paragraph 10, which deals with the new role of the non-executive directors. Hitherto, governments have taken the view that the non-executive directors are appointed to assist the chairmen in the management of their industries and to share the responsibilities of all Board members for their efficiency. To give them specific tasks and a special relationship with the responsible Secretary of State would be a development on which chairmen and Board members themselves could be expected to have views. While Mr Howell does not disagree with the spirit of this recommendation he feels that it might be better received by chairmen and Board members if the drafting showed more clearly but this change in role was put forward by the government for discussion, rather than a firm intention. There is otherwise the danger that criticisms of presentation could obscure the real point which is being made.

My Secretary of State therefore suggests that the last two sentences of paragraph 9 might be redrafted as follows:

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