JFF189

CONFIDENTIAL

c/c AW
JV

Secretary of State for Industry

NBPM
MS 9/3

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
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9 March 1982

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

Dear Peter

NATIONALISED INDUSTRIES AND THE CPRS REPORT

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

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

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

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

Yours ever
Richard

RICHARD RILEY
Private Secretary

CONFIDENTIAL

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

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

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

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

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

CONFIDENTIAL

NBPM

MS 13/3

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

12 March 1982

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

Dear Richard

NATIONALISED INDUSTRIES AND THE CPRS REPORT

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

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

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

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

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

I am copying this letter to the recipients of yours.

Yours ever
Peter

P.S. JENKINS

CONFIDENTIAL

cc/SV.

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

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

NBPM
MCS 12/3

11 March 1982

Dear Jonathan,

NATIONALISED INDUSTRIES AND THE CPRS REPORT

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

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

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

Yours,

Anthony Mayer

R A J MAYER
Private Secretary

CONFIDENTIAL

National Policy

cc AW
JV

Prime Minister (2)

MCS 10/3

01 211 6402

CONFIDENTIAL

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

10 March 1982

Dear Jonathan,

NATIONALISED INDUSTRIES AND THE CPRS REPORT

attached 1 We spoke last night about Richard Riley's letter of yesterday to Peter Jenkins. I understand that there is now more time for comment than Richard anticipated.

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

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

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

Yours ever,

J D WEST
Private Secretary

to whom?

NBPM

CABINET OFFICE

Central Policy Review Staff

With the compliments of

J. R. Ibbs

70 Whitehall, London SW1A 2AS

Telephone 01-233 7765

Nat Gd

cc DW

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

From: J. R. Ibbs

Qa 05855

CONFIDENTIAL

8 March 1982

Dear Secretary of State,

Nationalised Industries and the CPRS Report

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

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

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

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

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

Yours sincerely,

J R Ibbs

The Rt Hon Patrick Jenkin MP
Department of Industry

Prime Minister (2)

MCS 5/3

cc AW
Next Inc

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

5 March 1982

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

Dear Patrick

NATIONALISED INDUSTRIES AND THE CPRS REPORT

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

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

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

Yours

GEOFFREY HOWE

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

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

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

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

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

P.0670

PRIME MINISTER

Follow-up to the CPRS Report

E(NI)(82)8

BACKGROUND

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

2. The CPRS have three proposals.

(a) Sponsor Ministers should undertake the discussions with nationalised industries to which E(NI) agreed last year.

(b) Sponsor Ministers should very quickly circulate draft objectives for their industries for early discussion by the Sub Committee.

(c) Sponsor Ministers should report by July on their consultations with the industries.

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

others are now coming in post-haste - eg. British Airways British Airports Authority MCS 3/3

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

HANDLING

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

CONCLUSIONS

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

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

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

PLG

P L GREGSON

3 March 1982

cAD

Prime Minister

(2)

For Monday's E(NI) meeting.

MCS 4/3

PRIME MINISTER

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

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

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

the industries in the energy sector.

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

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

Janet Chadwick

pp SECRETARY OF STATE FOR ENERGY
3 March 1982

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

CONFIDENTIAL

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

18 February 1982

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

Dear Jonathan

RELATIONSHIP BETWEEN GOVERNMENT AND NATIONALISED INDUSTRIES

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

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

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

Yours ever
Peter

P.S. JENKINS

RELATIONSHIP BETWEEN THE GOVERNMENT AND THE NATIONALISED INDUSTRIES

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

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

Basic Relationship

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

Clarity of Objectives

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

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

Greater Business Understanding in Whitehall

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

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

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

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

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

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

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

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

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

Better Self-regulation of Nationalised Industries

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

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

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

a. Each Secretary of State when appointing non-executive directors would make clear to them the particular interest which he would wish them to take in the efficiency of the business.

b. In addition, the Secretaries of State would invite the Chairmen to consider whether the non-executive directors could be charged with specific tasks. For example:

i. to keep a watch on whether the industry is moving in accordance with agreed objectives and if not to draw this to the attention of the Board;

ii. to take special interest in the internal efficiency of the industry and to ensure that best management practice is maintained;

iii. to identify and draw to the attention of the Board any matter requiring special efficiency audits, whether undertaken by the MMC or any other body, are followed up.

c. The Boards would be asked to consider the setting-up of Efficiency Audit Committees consisting of non-executive directors or similar bodies where these do not already exist.

d. It is envisaged that the non-executive directors would also play a major role, alongside the Chairman and other Board members, at a meeting with the Secretary of State at least once a year to report on progress towards agreed objectives including efficiency objectives. This meeting would also provide an opportunity to review any improvements needed in the industry's relationship with the Department.

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

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

Other Proposals

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

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

Conclusion

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

BK

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

file

10 DOWNING STREET

From the Private Secretary

10 February 1982

Nat Ind

Relationship between Government and Nationalised Industries

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

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

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

M. C. SCHOLAR

Peter Jenkins, Esq.,
HM Treasury

CONFIDENTIAL

BK

PM

c/c AD
JV

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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

10 February 1982

Dear Terry,

MMC: FORWARD PROGRAMME OF NATIONALISED INDUSTRY REFERENCES

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

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

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

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

Yours sincerely

John Wilson

JOHN WILSON
Private Secretary

Prime Minister

(1)

Will these changes meet your concern? Can the Chancellor now send the document, amended in these ways?

MCS 9/2

CONFIDENTIAL

Qa 05822

9 February 1982

To: MR SCHOLAR

From: J R IBBS

Yes, but it still not good!

Relationship between Government and Nationalised Industries

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

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

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

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

CONFIDENTIAL

(iv) At the end of paragraph 7, amend the end of the middle sentence to read:-
".....to enhance Whitehall knowledge and understanding. Departments can then better appreciate and assess the business arguments and considerations put to them by the industries".

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

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

JR