



CC [initials]
Prime Minister (4)

Noted
Policy

Treasury Chambers, Parliament Street, SW1P 3AG

MUS 7/4

01-233 3000 6 April 1982

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

De Nigel

NI DRAFT OBJECTIVES

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

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

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

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

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

GEOFFREY HOWE

APR 1982
1982
APR 1982

7 APR 1982

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



✓ JV
Prime Minister (2)

CABINET OFFICE
Central Policy Review Staff

MUS 31/3

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

From: J. R. Ibbs

Qa 05876

CONFIDENTIAL

31 March 1982

Dear Secretary of State,

NI Draft Objectives

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

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

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

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

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

CONFIDENTIAL

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

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

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

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

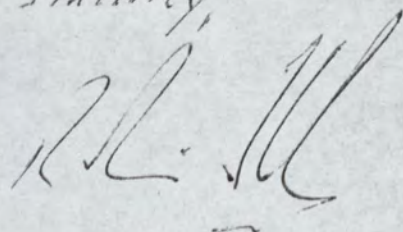
CONFIDENTIAL

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

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

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

Yours sincerely,



J R Ibbs

CONFIDENTIAL

MR. HOSKYNS

cc: Mr. Scholar
Mr. Walters

FOLLOW UP TO THE CPRS REPORT: NATIONALISED INDUSTRIES OBJECTIVES

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

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

/ It may be

CONFIDENTIAL

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

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

J. M. M. VEREKER

18 March 1982



10 DOWNING STREET

From the Private Secretary

16 March 1982

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

Dear Sir,

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

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

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

Yours sincerely,

Michael Scholar

Julian West, Esq.,
Department of Energy.

OSF

Not to policy



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

✓ JV (2)

Prime Minister

An attempt to placate Robin

Ibbs!

Mus 16/3

16 March 1982

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

P+S

P+S

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

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

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

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

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



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

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

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

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

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



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

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

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

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

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

NIGEL LAWSON



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

ANNEX

COMMENTS ON SPECIFIC QUESTIONS RAISED IN 22 JANUARY LETTER

GENERAL APPROACH

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

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

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

SPECIFIC POINTS IN 22 JANUARY LETTER

National Coal Board

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

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



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

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

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

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

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



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

Electricity

- i. We do need to decide the structure of the industry and are reviewing it, though the options and implications are wider than you suggest.

- ii. I agree that the right size of the planning margin is an important question. The planning margin is already being reviewed. When the results are available and it is clear what action the industry intends to take, we will then be able to consider whether any Government objective is necessary, over and above the obligation on the industry to strike a balance between security of supply and economy of operation.

- iii. Your question whether future stations should be only nuclear or coastal-based fossil-fuelled over simplifies the choices. There is a case for a strategic objective to diversify plant and increase flexibility of response, reducing the dependence on home-produced coal, but the means could be more diverse, eg including slurry pipelines, CHP. Specific questions related to individual power stations are not necessarily best answered by an all-embracing objective.

- iv. The question of whether or not we should withdraw the statutory bar against "discrimination and undue preference" will be considered in the long-term review of electricity pricing which we are to undertake. It does of course raise broader industrial policy questions.

- v. You ask whether the industry should try to retain two UK turbine manufacturers. It is a legitimate objective for the industry to support an indigenous power plant manufacturing capability, but the structure of the power plant industry is

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



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

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

British Gas Corporation

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

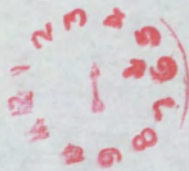


C O N F I D E N T I A L

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

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

17 MAR 1982





With the Compliments of

ROBIN IBBS

**CENTRAL POLICY REVIEW
STAFF**

Cabinet Office
Whitehall London
SW1A 2AS

Telephone or **233** 7765



CC JV

①

CABINET OFFICE
Central Policy Review Staff

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

From: J. R. Ibbs

Qa 05860

CONFIDENTIAL

Prime Minister

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

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

MS 15/3

Dear Secretary of State,

Objectives for Nationalised Industries

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

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

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

The Rt Hon Nigel Lawson MP
Department of Energy

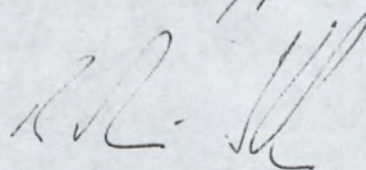
CONFIDENTIAL

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

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

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

yours sincerely,



J R Ibbs

CONFIDENTIAL

✓ AD
JV
(2)

Prime Minister

PRIME MINISTER

[Handwritten mark]

The CPRS will be pulling all these draft objectives together.

MS 2/3

NATIONALISED INDUSTRIES OBJECTIVES

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

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

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

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

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

[Handwritten signature]

DAVID HOWELL
1 March 1982

CONFIDENTIAL

OBJECTIVES FOR THE NATIONAL BUS COMPANY

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

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

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

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

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

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

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

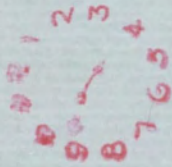
CONFIDENTIAL

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

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

CONFIDENTIAL

F2 MAR 1982





X JV
AD

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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

NBPM ref.

26. February 1982

Dear Chancellor,

OBJECTIVES FOR THE SCOTTISH TRANSPORT GROUP

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

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

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

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

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

Yours sincerely

J.S. Wilson

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

SCOTTISH BUS GROUP

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

And in all this

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

CALEDONIAN MACBRAYNE

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

And in all of this

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



126 FEB 1982



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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

26 February 1982

Dear Chancellor,

OBJECTIVES FOR THE SCOTTISH ELECTRICITY BOARDS

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

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

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

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

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

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

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

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

Yours sincerely

J.S. Wilson

Approved by the Secretary of State
and signed in his absence

DRAFT OBJECTIVES FOR SCOTTISH ELECTRICITY BOARDS

1. The Boards' primary objective is:

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

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

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

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

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

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

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

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

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

3. South of Scotland Electricity Board

To commission Torness on time and within budget

4. North of Scotland Hydro-Electric Board

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



26 FEB 1982



CC JV
AD

NBPM

MUS 9/2

CABINET OFFICE

Central Policy Review Staff

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

From: J. R. Ibbs

Qa 05820

CONFIDENTIAL

8 February 1982

Dear Secretary of State,

Nationalised Industry Objectives

Thank you for sending me a copy of your letter dated 29 January to the Secretary of State for Energy on draft objectives for the nationalised industries.

You will have seen from my letter dated 22 January, which like yours responded to the letter dated 23 December from the Private Secretary to the Secretary of State for Energy, that my general view is that objectives should be restricted to clear statements of what it is that Ministers require from each industry. I do not believe that re-statements of statutory or other basic duties would generally be helpful.

Against this background I have some difficulty with your suggested objective on industrial relations for general inclusion in nationalised industry objectives. It seems to me irrefutable as a general statement of sound management practice but I doubt whether it gives nationalised industry managements sufficiently specific guidance to be helpful. For example, to be beneficial, employee involvement has to be tailored to the situation and needs of a particular industry - indeed, I think inappropriate forms of involvement have in some instances contributed to the disappointing performance of some industries. I am therefore doubtful about the value of general

The Rt Hon Norman Tebbit MP
Department of Employment
CAXTON HOUSE
S W 1

CONFIDENTIAL

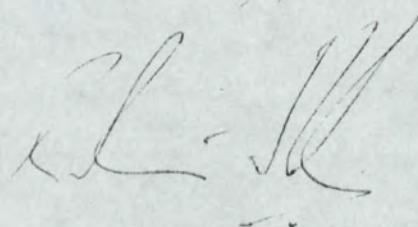
exhortation in this area. Obviously I would support the inclusion for an individual industry of clear-cut objectives where Ministers see a special need to deal with its industrial relations or employee involvement needs, provided such objectives can be suitably defined.

Your comments on the objectives on training seem to me to echo the doubts I have just expressed. I share your uncertainty when you say "I am not at all sure that any general objective on this subject can be expected to offer management much useful guidance." But again I would support the inclusion of any objectives tailored to the individual needs of a particular industry.

Needless to say I agree entirely with your paragraph on performance aims. Progress on these should be helped by the programme of performance reviews and systematic examination of corporate plans that has now been arranged.

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

Yours sincerely,



J R Ibbs



With the Compliments of

ROBIN IBBS

CENTRAL POLICY REVIEW
STAFF

Cabinet Office
Whitehall London
SW1A 2AS

Telephone or **233** 7765