



Prime Minister (2) *sc* JV

 MS 21/5

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
 Secretary of State
 Department of Industry
 Ashdown House
 123 Victoria Street
 London SW1E 6RB

20 May 1982

2 Patrick

INVESTMENT & FINANCING REVIEW

Colleagues in E(NI) have agreed to the programme of Corporate Plan Reviews proposed by the Chancellor in E(NI)(82)12. Work on some of these Plans by officials in preparation for consideration by Ministers collectively is already well advanced. The industries' plans in aggregate will of course come forward for consideration in the Investment & Financing Review in July as part of the Public Expenditure Survey.

I do not want to pre-empt the discussions that are to take place over the next few months; but neither you nor colleagues generally will be surprised if I emphasise the importance of the published public expenditure figures as the reference point for these discussions. I fully appreciate that the industries as trading bodies are not precisely on all fours with administrative spending programmes, but the amount that they borrow is of course of great significance in our public expenditure plans. The requirements of financial discipline are equally relevant and beneficial to trading and non-trading bodies. In addition the need not to exceed the cash planning totals over the planning period does not allow us to contemplate any overall relaxation on the aggregate figures, and I of course reserve the right to put to colleagues proposals for seeking a reduction in the totals. Any increase for the nationalised industries as a whole is bound to mean less for other expenditure programmes. It is therefore essential that any increase in financing requirements over the agreed figures which are proposed by the industry are searchingly probed and when they are put forward clearly and fully justified: and that the scope for reductions e.g. by greater efficiency/productivity improvements etc is exhaustingly explored.

I should like to draw attention to one particular aspect. In last year's IFR many industries made assumptions about pay that all of us judged excessive when we came to EFL setting in the autumn;

CONFIDENTIAL

and assumptions about inflation that events have shown to be pessimistic. Forecasts of this kind are inherently uncertain. The industries are responsible for the realism of their plans and assumptions on matters such as GDP growth, inflation and pay are ultimately for them to decide. But I hope that you will try to ensure that their projections fully take into account the more favourable prospect for inflation that is now generally foreseen. This is particularly important for influencing the pay assumptions which will underlie the EFLs.


I am copying this letter to the Prime Minister and to other Members of E, Sir Robert Armstrong and John Sparrow.

Lev
Lev

LEON BRITTAN

8 8 8 8 8 8 8 8 8 8
7 6 5 4

20 MAY 1982


CONFIDENTIAL

P.0738

PRIME MINISTER

Nationalised Industries' Performance and Corporate Reviews: 1982 Programme

E(NI)(82)12

BACKGROUND

This paper by the Chancellor of the Exchequer sets out proposals for the first cycle of performance and corporate plan reviews (P & CP Reviews) of the nationalised industries. You will recall that the intention is to supplement the existing annual Investment and Financing Review (IFR) and the quarterly monitoring of External Financing Limits (EFLs) by a thorough examination of how each nationalised industry has performed in relation to its agreed targets, the main forward plans of each industry and trends in pay, pricing and productivity.

MAIN ISSUES


2. The objectives of the Chancellor's paper are threefold, namely:

(i) to seek E(NI)'s endorsement of how the P & CP Review system might operate once it has come properly into effect (paragraphs 2 and 3 and Annex A);

(ii) to get agreement to the timetable for this year's P & CP Reviews and the list of industries (see Annex C) which are to be the subject of collective Ministerial consideration by E(NI) this year;

(iii) to encourage sponsor Ministers to get the P & CP Review system into quick and effective operation (progress to date is summarised in Annex B).

Because of unavoidable difficulties in arranging the discussion in E(NI) some time has been lost; and it will be necessary to press Departments hard if the timetable for the period up to the Summer Recess is to be kept.


CONFIDENTIAL

The General Approach


3. The general timetable for the operation of P & CP Reviews (Annex A to the paper) has been the subject of extensive inter-departmental discussions at official level, as has the detailed timetable for this year's programme of reviews (Annex C), and ought to be broadly acceptable to Ministers. But the proposed timetable will raise difficulties for those industries whose financial years are coincident with the calendar year, principally British Rail, the National Coal Board and the British Steel Corporation, or whose corporate planning cycles have for some other reason been geared to a different timetable to that now proposed, namely British Shipbuilders, the National Bus Company, the Scottish Transport Group and the Electricity Supply Industry in England and Wales. As paragraph 5 of the Chancellor's paper acknowledges, sponsor Ministers will need to agree with their industries on how the planning cycles of the industries concerned can best be adjusted to fit in with the P & CP Review system. In some of the big industries considerable upheaval may be involved and it may not, therefore, be possible for the necessary changes to have taken effect in time for the 1983 P & CP Review cycle. The industries concerned may also prove resistant to making the changes involved.

4. At this stage no specific decisions arise for Ministers on this aspect of the Chancellor's paper. No doubt sponsor Ministers will alert colleagues if the problems thrown up by individual industries prove particularly serious.

The 1982 Programme

5. This is summarised in Annex C to the Chancellor's paper. It ought again to be possible to reach agreement quickly on the Treasury's proposals, which seem to be sensible. The proposed work programme, however, is a heavy one - especially as there has already been some slippage - involving discussion of one major nationalised industry, and the clearance in correspondence of two minor ones, each month during May to July. Moreover, in later years the programme will be heavier since this year discussion of British Shipbuilders and of the Railways Board will have to wait until the autumn; and this year there will be no proper P and CP Review of the National Coal Board, because of the

CONFIDENTIAL


CONFIDENTIAL

change of chairman and the preparation of strategic objectives for the industry. It will therefore be important for P and CP Reviews to be submitted to timetable if a log-jam of major reviews just before the summer holiday period is to be avoided.

6. The Chancellor suggests in his paper that the draft of the proposed policy letter to the new chairman of the National Coal Board should be the subject of collective Ministerial discussion because of the major strategic and financial questions which it will need to address. The Secretary of State for Energy is likely to argue that it should be cleared in correspondence. But this letter will effectively map out the Government's strategy for the coal industry for the next five years and will therefore be of crucial importance. It seems unlikely that it will prove possible to clear it in correspondence. I suggest, therefore, that you might suggest that a draft should be put to E(NI) before the end of this month. There seems to be no reason why this should not be possible.

7. It will also be necessary to have discussed the British Steel Corporation by the end of May, British Telecom by early June, and the remaining industries as indicated in Annex C to E(NI)(82)12.

Progress to date with P and CP Reviews

8. Annex B to the Chancellor's paper summarises the work that has been undertaken so far with the preparation of the P and CP Review for each industry. Since that Annex was prepared there have been a number of developments. Work on the review for the British Airports Authority (BAA) has now been set in hand; and the Department of Industry has undertaken to start the review for British Shipbuilders and for Girobank within the next few weeks. So work is now in hand or about to start on all the reviews, or agreed alternatives to them, planned for this year.

9. Finally, the question may be raised whether the chairmen of the nationalised industries should each be given an opportunity to discuss the corporate plan of the industry concerned with Ministers collectively. You may recall that the Chancellor of the Exchequer floated this proposal when Ministers were considering how best to follow up the CPRS report on the nationalised industries,

CONFIDENTIAL

but it got a mixed reception; and in further discussion at official level departmental reactions to it have continued to be divided. What the Chancellor had in mind is that after Ministers collectively had considered the corporate plan of an individual industry and reached conclusions about it, the chairman of the industry concerned should have the opportunity to put his points about the plan to Ministers collectively so as to avoid any impression that the views of the industry were given insufficient weight by the Ministers in reaching an assessment of the performance and plans of each nationalised industry.

10. It ought to be the case that chairmen of the nationalised industries feel they have an adequate opportunity to put their case in their regular discussions with sponsor Ministers. The danger in introducing a new level of discussion between chairmen and Ministers collectively is that if a sponsor Minister fails to reach agreement with the chairman of an industry on an issue of major importance the chairman may press for an opportunity to put his case to Ministers collectively which would seriously undermine the relationship between sponsor Ministers and their industries. Furthermore, major changes have already occurred this year in the relationship between the Government and nationalised industries following the CPRS report and with the introduction of the P and CP system. It might therefore be preferable to allow these changes to work properly through and, in particular, to allow the P and CP system to get properly under way before introducing a further major change which this proposal would represent.

HANDLING

11. You will want to invite the Minister of State, Treasury to introduce the paper. I suggest that you might then focus the discussion on paragraphs 8 and 9 of the paper which summarise his proposals and recommendations. You may then wish to ask Mr Sparrow whether he wishes to comment. As time will be short, you will wish to invite comments only from those sponsor Ministers who see difficulty about the Chancellor's proposals.

CONCLUSIONS

12. You will want to record conclusions on:



CONFIDENTIAL

(i) the general arrangements for the performance and corporate plan review cycle in future years set out in Annex A to E(NI)(82)12;

(ii) the programme of P & CP Reviews (and analogous arrangements) for this year set out in paragraph 8 and Annex C to E(NI)(82)12, allowing only for the slippage that has already (and unavoidably) taken place;

(iii) whether the draft of the proposed policy letter to the new Chairman of the National Coal Board should be considered by E(NI) or cleared in correspondence.

(iv) the Chancellor's proposals in paragraph 9 of E(NI)(82)12 for ensuring that the P and CP process is brought into effective operation as soon as possible.

PLG

P L GREGSON
Cabinet Office
10 May 1982

CONFIDENTIAL



CONFIDENTIAL

P.0737

PRIME MINISTER

Progress on Nationalised Industries

(E(NI)(82)10)

In this note the CPRS review progress in implementing the proposals in their report on Government/Nationalised Industry relations. The three most important points in the paper are the procedural suggestions on board size and composition (paragraphs 3 and 4), improving expertise in sponsor departments (paragraphs 8 and 9) and handling of future E(NI) business (paragraph 10). The annex contains a comprehensive summary of progress so far and further action which the CPRS considers necessary.

Item 2
2. The paper also touches on performance and corporate plan appraisals, which are dealt with in E(NI)(82)12 under Item 2 of the Agenda. There should be no need to discuss the setting of nationalised industry objectives; that exercise is now in progress on the basis agreed at E(NI)(82)3rd meeting which the Chancellor took on your behalf.

MAIN ISSUES

Board Size and Structure

3. The CPRS report recommended that industries should have smaller boards than at present, with a majority of appropriately qualified non-executive directors particularly concerned with efficiency. E(NI)(82)10 proposes that sponsor Ministers should consider how they intend to apply these proposals to each industry; and that they should report to the Sub-Committee on their proposed timetable for doing so in July (as part of the reports which E(NI) commissioned at its last meeting on progress on implementing proposals in the CPRS report).

4. Although the CPRS proposal on board size and structure has been accepted in general by Ministers, it is possible that some Ministers may wish to argue that there are special reasons which make it inappropriate or impracticable in

CONFIDENTIAL

particular industries. If so, you will not wish the Sub-Committee to be drawn into detailed discussion of particular cases. Sponsor Ministers might therefore be invited to make out the case for any proposals for exceptional treatment when they report back to E(NI) in July on the timetable for implementing changes in board size and structure. Subject to this point (if it arises), there ought not to be disagreement with the CPRS proposal.

Improving expertise in sponsor Departments

5. The CPRS report recommended that greater understanding of business is needed in Departments, notably by increasing the length of time for which officials deal with nationalised industries; having career paths providing for more business training and a succession of 'industrial' postings (including outward secondments to business); and inward secondments of businessmen. E(NI) agreed in December to review in November 1982 the adequacy of the business expertise available in sponsoring Departments. The CPRS now propose that Management and Personnel Office and other Departments' officials should report specifically on the means for implementing the CPRS proposals for improving the business expertise of officials.


6. The Lord Privy Seal (letter of 28 April to the Chancellor of the Exchequer) has broadly accepted the CPRS suggestions for improving the business expertise of officials. You may wish to seek the views of E(NI) on whether her proposals go far enough. You may also wish to suggest that she should be invited to report more fully in, say, July for the guidance of departments. Departments can then report in November on what they are doing to implement the proposals.

Handling of future E(NI) business

7. The CPRS propose that the Chancellor might handle meetings of E(NI) which consider the objectives and corporate plans of smaller nationalised industries. We understand that you have discussed this with the Chancellor: it is, of course, a matter for you to arrange with him. You may wish to tell the Sub-Committee what you have decided (Mr Scholar's letter of 6 May).

HANDLING

8. Since time will be short and the paper is straightforward you may feel that there is no need to have it introduced and you could simply invite comments


CONFIDENTIAL

in turn on the CPRS proposals:

- (a) board size and composition; —
- (b) improving business expertise of officials; *ML*
- (c) any other proposals included in the annex to E(NI)(82)10, which Ministers wish to raise.

9. Any of the sponsor Ministers present may wish to comment on what the CPRS propose. The Minister of State, Treasury (attending in the unavoidable absence of both the Chancellor of the Exchequer and the Chief Secretary) is likely to express general support for them. The Lord Privy Seal will want to comment on the procedure suggested in relation to improving departmental expertise.

CONCLUSIONS

10. You will want the Sub-Committee to reach conclusions on:

- (i) whether sponsor Ministers should be invited to report back to E(NI) by July on how they are implementing the CPRS proposals on board size and composition together with a timetable for implementation;
- (ii) whether the Lord Privy Seal should be invited to report back to E(NI) in July on how the CPRS proposals for improving the business expertise of officials could be implemented;
- (iii) any other points raised in discussion.

PLG
P L GREGSON
Cabinet Office
10 May 1982