

PREM 19/305

PART. 1.

Confidential Filing

Policy towards the Nationalised Industries. Financial control. Privatisation.

NATIONALISED

INDUSTRIES

May 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
15.5.79							
22.5.79							
23.5.79							
24.5.79							
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19.11.79							
8.1.80							
11.2.80							
13.2.80							
14.2.80							
18.2.80							

PREM 19/305

PART 1 ends:-

Industry to TPL of 18.2.80.

PART 2 begins:-

Mtg of Ministers / Chairmen of Industries 20.2.80
Wage to TPL (A01500) of 22.2.80.

Nat Ind



DEPARTMENT OF INDUSTRY

ASHDOWN HOUSE

123 VICTORIA STREET

LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301

SWITCHBOARD 01-212 7676

18 February 1980

PS/ *Secretary of State for Industry*

T Lankester Esq
 Private Secretary to the
 Prime Minister
 10 Downing Street
 London SW1

Dear Tim,

NATIONALISED INDUSTRIES: FINANCIAL CONTROL 13?

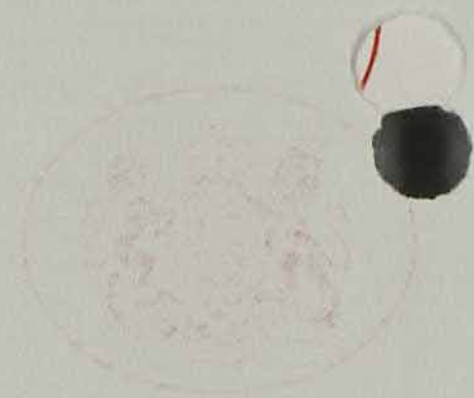
My Secretary of State has seen the Chancellor's private secretary's letter to you of 11 February and has asked me to let you know that he is content with the arrangements suggested in it.

I am copying this letter to the Chancellor's private secretary and to David Wright at Cabinet Office.

*Yours ever,
 Pete*

PETER STREDDER
 Private Secretary

DEPARTMENT OF INDUSTRY
ASBDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6BB
TELEPHONE DIRECT LINE W 312
FAXBOARD W 24 1818



118 FEB 1980

Next Ind

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
 Secretary of State
 Department of Industry
 Ashdown House
 123 Victoria Street
 London SW1

R 172

14 February 1980

Dear Keith,

EXTERNAL FINANCING LIMITS FOR NATIONALISED INDUSTRIES 1980-81

Geoffrey Howe wrote to you yesterday about the general problem. May I add a few words about the Post Office?

The Chancellor suggested that, in doubtful cases, we should consider asking the industries either to confirm that they believe they will be able to live within the limits, or to identify the action which they propose to take, or could take during the year if necessary, to live within them. The Post Office was one of the industries he had in mind in saying this. He did, of course, warn you in his letter of 19 December that, to the extent that the PO are in breach of their 1979-80 external financing limit, we should need to reduce their 1980-81 limit pro tanto. The extent of that overrun now looks like £55 million over and above the billing backlog - assuming that you share my dislike of, and that we therefore disallow them the benefit of, the dubious device they have proposed relating to the discount on their NLF repayments. It remains true that the PO are the first industry ever to breach an EFL substantially because of a high wage settlement; and it is more than ever important now, thinking especially of repercussions on Steel, that the credibility of the policy should be maintained by making a corresponding deduction next year for any excess in this.

I should be grateful if we could keep in touch about how the PO breach is to be presented. We shall need to think carefully both about what is to be said on the breach as such, and about how the announcement is to be coordinated with that on the Electricity breach.

I am sending a copy of this letter to the Prime Minister.

*Yours
John Biffen*

JOHN BIFFEN

11 12 1
0 9 8 7 6 5 4 3 2 1

15 FEB 1980



FILE

ltb

~~B/F 20/2.80~~

Nat hd

MR WRIGHT
Cabinet Office

NATIONALISED INDUSTRIES: FINANCIAL
CONTROL

You received a copy of Martin Hall's letter of 13 February on this subject. The Prime Minister discussed the letter with the Chancellor this morning, and she agreed in general terms with his proposals for setting up a new committee under his own chairmanship to discuss financing questions, and that E(DL) should cover "privatisation" under Sir Keith Joseph's chairmanship from now on. I understand that the Chancellor has also discussed this with Sir Keith, who is agreeable.

I would be grateful if you could let me have a draft letter with proposed terms of reference and membership for these two committees.

T. P. LANKESTER

14 February 1980

ltb



Prime Minister

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

13 February, 1980

The Chancellor
referred to
this at your
meeting this
morning.

ms.

Sir Keith

14/2

EXTERNAL FINANCING LIMITS FOR NATIONALISED
INDUSTRIES 1980-81

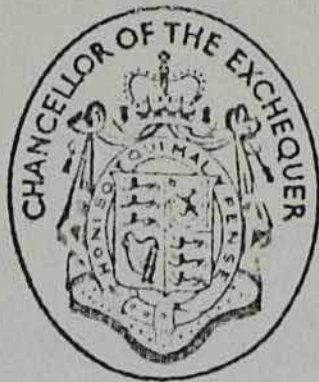
When we set the 1980-81 external financing limits for the nationalised industries last November, we all recognised that they would be tight: indeed, that was our intention. We all agree that it is critically important that these limits should be adhered to and I am anxious that we should do everything in our power, in good time, to make sure of this. Our recent experience in relation to the Post Office and the electricity industry, where substantial excesses have emerged late in the year, demonstrates how difficult it can be to enforce the limits unless adequate action is taken early.

I believe there is a considerable risk that the external financing limits of a number of the industries may be exceeded next year unless action is taken early. I am told that in a number of cases the nationalised industries, in doing the calculations on which the external financing limits for 1980-81 were based, made assumptions about GDP and inflation which were optimistic by comparison with the forecast we published in December. If the economy develops in line with that forecast, new action will be needed by those industries to ensure that the limits are adhered to. Investment programmes may have to be cut further, and there may have to be action to cut current costs and improve efficiency and in some cases earlier or higher price increases than those now planned.

It would be a tragedy - and I think totally unacceptable to our colleagues - if the savings in public expenditure, on which we have just agreed after quite a struggle, were cancelled out, wholly or partly, by large

/excesses in

The Rt. Hon. Sir Keith Joseph, MP



excesses in nationalised industry EFLs in the course of 1980-81. I am therefore writing to ask you and the other sponsoring Ministers to consider urgently whether anything can and should be done before the start of the financial year to make sure that these industries are able to keep within the limits which have been set. I think that in doubtful cases we should consider asking the industries either to confirm that they believe they will be able to live within the limits or to identify the action which they propose to take, or could take during the year if necessary, to live within them. I should be grateful if you would let me know urgently what you think.

We are of course going to meet the Chairmen on 20th February and I intend then to emphasise how much importance we attach to observing the limits in 1980-81. I think it would be useful if we met beforehand to discuss the handling of that meeting, but it would not be an appropriate occasion to discuss the plans of individual industries.

A further point is the importance of efficient monitoring. I suspect we need to consider whether sponsoring departments are getting adequate, regular and up-to-date information on each industry's financial position and prospects for the remainder of the year and indeed whether in all cases the national managements of the industries have this information. We do not want to interfere unnecessarily but we do want to avoid surprises of the kind we have had recently in one or two cases.

I recognise that steel is a case of special difficulty and you may not be able to answer the question I am asking until after the strike is settled; but of course I am no less anxious in that case to ensure that the external financing limit for 1980-81 is adhered to.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for the Environment, Scotland, Trade, and Energy, to the Minister of Transport and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'G. Howe', written over a horizontal line.

(GEOFFREY HOWE)

13 FEB 1960



CONFIDENTIAL

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Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

13th February, 1980

Do TK,

R 141

NATIONALISED INDUSTRIES: FINANCIAL CONTROL

Thank you for your letter of 11th February.

The Chancellor would like to discuss this with the Prime Minister tomorrow morning if possible. He thinks that it would be useful now to re-examine the question of the financial control of nationalised industries. The problem is complex and difficult and not, of course new. But it is especially acute in present circumstances, given the rate of inflation and the need to maintain monetary discipline and to reduce the PSBR. The Chancellor recognises that the system of control over the finances of nationalised industries, and the use of external financing limits in particular, are by no means perfect. It is not at all certain that closure examination will throw up a better method; but the Chancellor is sure that an investigation of this question, which would cover the points mentioned in your letter, would now be useful. Indeed he is already embarked upon one.

The Chancellor is however equally clear that unless and until some alternative system of control can be devised and put into operation, it is essential to stand firmly by the existing controls and limits. He has written today to Sir Keith Joseph and other Ministers responsible for the nationalised industries to ask them to consider whether new action is now necessary to ensure that the external financing limits which have been set for 1980-81 will be observed in practice. There is a danger that they may be exceeded and the excess could be on such a scale as to offset to a great extent the public expenditure savings which have only just been agreed.

/The Chancellor

T. Lankester, Esq.,
Private Secretary,
10, Downing Street

CONFIDENTIAL



The Chancellor therefore suggests the following arrangements. He has discussed them with Sir Keith Joseph, who would be glad to consider arrangements along these lines.

(1) The financing questions, which are crucial to the control of public spending and which affect several Ministers, would be considered by a newly constituted Cabinet committee under his chairmanship. It would largely comprise sponsoring Ministers. The starting point would be a meeting, before the Budget, at which discussion could be based on a joint Treasury/CPRS paper.

(2) Wider (and, in the Chancellor's view, no less important) questions about "privatisation" (including disposals), have been considered hitherto by E(DL). These would be taken further under Sir Keith Joseph's chairmanship, either as chairman of E(DL) in the Chancellor's place, or in a newly constituted MISC group.

(3) The Secretary of State for Industry's informal Ministerial group would be dissolved.

(4) The two groups would report in due course to 'E'.

I am copying this letter to Ian Ellison and David Wright.

Yours,

M.A.

(M.A. HALL)
Private Secretary

12 1960



13 FEB 1960



RECEIVED

PRIME MINISTER

MEETING WITH THE CHANCELLOR, THURSDAY 14 FEBRUARY, AT 0900

The Chancellor will probably want to discuss with you the handling of policy on the nationalised industries. (There may be a letter on this from him later tonight).

Sir Keith has been chairing a small group of Ministers since the summer on nationalised industry policy, and the group has completed a report which will be coming to E around the end of the month. There are two principal aspects: break-up and de-monopolising, and the cash limit system. You yourself have raised both these issues in connection with the electricity industry. Besides the paper to E, there will need to be continuing machinery for looking at these issues. The Chancellor will, I believe, propose that break-up/de-monopolising should be taken in ED(L); and now that the original task of ED(L) to raise money has been achieved, he proposes that Sir Keith should take over the Chairmanship of this Committee. As for the financing issue, the Chancellor would like to set up a new group of Ministers to consider this under his own Chairmanship. Sir Keith's original group would then be wound up.

The Chancellor may also raise the question of a medium-term financial plan. He will need a firm decision on this within the next month. I think it would be best to defer discussion until we have some firm figures on what would be the implications - in particular, for the fiscal adjustment which would be required in the second and third year of the plan in order to achieve the announced monetary targets.

T P L



13 February 1980

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Nat Ind.

Ref. A01405

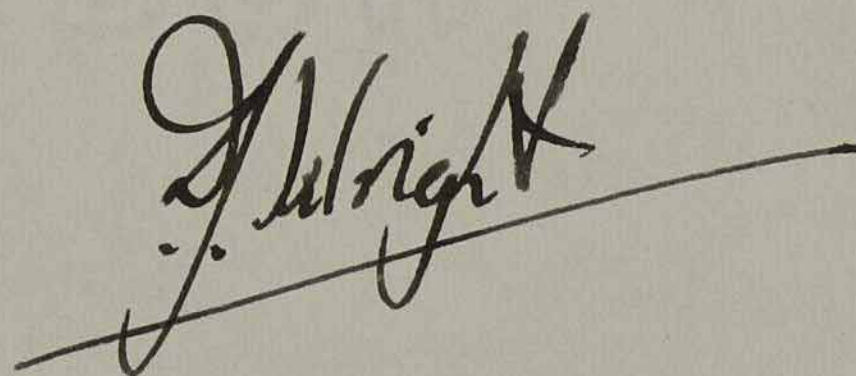
MR. LANKESTER

Nationalised Industries

In your minute of 11th February you ask for advice on the handling of the report being prepared interdepartmentally on nationalised industry policy. The report is in fact ready and is to be considered today by a small group of Ministers under the chairmanship of Sir Keith Joseph (the other Ministers present include Sir Geoffrey Howe, Mr. Howell, Mr. Younger, Mr. Fowler and Mr. Heseltine). Their immediate task is to settle a few points which are to be discussed with the Chairmen of the nationalised industries on 20th February. Sir Keith Joseph will be reporting on this to the Prime Minister after today's meeting.

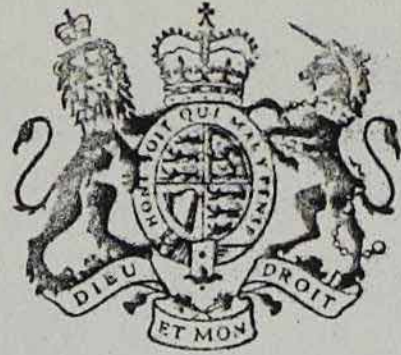
2. Once the meeting with the Chairmen on 20th February is out of the way the intention is that either Sir Geoffrey Howe or Sir Keith Joseph should produce a paper for E. We hope that this paper will be ready for discussion around the turn of the month.

3. The basic report by the official group to which you referred in your minute covered a lot of ground, including privatisation. In order to ensure that Sir Keith Joseph's paper to E adequately covers the Prime Minister's specific questions about break-up and demonopolising the nationalised industries, it would be helpful for the Prime Minister to refer specifically to these aspects when she replies to the minute from Sir Keith Joseph she should be receiving after today's meeting.



D. J. WRIGHT

13th February, 1980



10 DOWNING STREET

From the Private Secretary

B/F 15.2.80.

MR WRIGHT
CABINET OFFICE

Nationalised Industries

*see
Natl. Ind. Sept 79
(base elec)*

The Prime Minister's response to Sir Kenneth Berrill's minute of 6 February about the Electricity Council's external financing limits is contained in my letters of today's date to the Department of Energy and the Treasury - copies attached.

The Prime Minister has also asked that urgent consideration should be given to improving the efficiency of nationalised industries by breaking them up and demonopolising them. I understand that there is an official inter-departmental group on nationalised industry policy which produced a report shortly before Christmas and which contains sponsoring Departments' views on the scope for breaking up/demonopolising their various industries. I would be grateful if you would let me know if this report, or a summary of it, could provide a suitable basis for Ministerial discussion. Ideally, we would want an over-view of what can be done, and what should be the Government's priorities.

I understand that the official group reports to Sir Keith Joseph. Should Sir Keith be asked to report to the Prime Minister, or could the Cabinet Office or the CPRS provide a paper?

I am sending a copy of this minute to Sir Kenneth Berrill.

T. P. LANKESTER

11 February 1980

CONFIDENTIAL

JPG



10 DOWNING STREET

From the Private Secretary

SIR KENNETH BERRILL

Nationalised Industries

You will have seen that I have commissioned a note from the Treasury on the external financing limit system for nationalised industries. The Prime Minister has asked whether you can contribute to this, and it would be helpful therefore if you could concert with the Treasury.

I have not copied my letter to the Treasury to sponsoring Departments because the Treasury are afraid that any querying of the EFL system by the Prime Minister at this particular juncture will take the pressure off Ministers as regards sticking to their existing limits. But I believe the Prime Minister will want to discuss this whole question with both the Chancellor and sponsoring Ministers in due course.

I am sending a copy of this minute to Sir Robert Armstrong.

T. P. LANKESTER

11 February 1980

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JSG



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u u
DCCPRS
Ind.
27

10 DOWNING STREET

From the Private Secretary

11 February 1980

B/F 15 2.80.

See Nat. Ind. Sept 75 (Elec & Gas) }
I have written to the Department of Energy today to say that the Prime Minister is concerned about the prospective breach of the Electricity Council's external financing limit.

The Prime Minister is also concerned about the problems which the current system of external financing limits is posing for other nationalised industries. There appear to be prospective overruns not only for the electricity industry but also for the Post Office, steel and shipbuilding. These problems raise not just issues of efficiency and the need to hold down costs but also such questions as:

- (i) are there sufficiently generous contingency margins in the present limits? If not, this would of course require public expenditure cuts in other programmes.
- (ii) should the nationalised industries be allowed to "take one year with another" - and if so, over how many years?
- (iii) are they, or should they, be give retrospective adjustments for certain events outside their control - such as the steel strike, the faster rate of inflation in respect of their raw materials, a warm winter, etc.?

The Prime Minister would like to know if the Chancellor is satisfied with the EFL system as presently applied to the nationalised industries. She would like a note setting out his views which she would then like to discuss with him - and possibly with sponsoring Ministers.

I am sending a copy of this letter to David Wright (Cabinet Office).

ANKESTER

A.J. Wiggins, Esq.,
HM Treasury.

CONFIDENTIAL
709



Original filed
Nat. Ind (Steel) Pt 3
NAT IND

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

8 January, 1980

Dear Tim,

I understand that the Prime Minister has asked for figures setting out the total external financing requirements of the nationalised industries over the past five years, together with figures for their profits/losses.

... The attached table provides this information for the major industries. There are two points to be borne in mind in interpreting these figures. First, the external financing figures provide only one component of the industries' capital requirements, a further contribution coming from internally generated funds. Second, the profit or loss figures are not directly comparable with each other. The figures for the years 1975/76 to 1978/79 are taken from the industries' published accounts and thus reflect a variety of accounting practices. They are post interest and therefore reflect differences in the capital structure of the industries i.e. both the timing of any capital reconstructions and the form in which the capital has been provided e.g. the proportion of non-interest bearing PDC in the case of steel. The estimated out-turn figures for 1979/80 are taken from the industries' monitoring returns, and unlike the earlier years' figures make no allowance for tax. This is only likely to make a significant difference in the case of British Gas. An adjustment has been made in each year to the rail and coal figures to eliminate the substantial grants to those industries which are treated as revenue in their accounts.

Sorry about the typing!

Yours,

Richard

R. I. TOLKIEN

T. P. Lankester, Esq.,
No. 10.

NATIONALISED INDUSTRIES

£m at outturn prices

	1975/76	1976/77	1977/78	1978/79	1979/80	
<u>Total External Finance</u>						
National Coal Board	340	316	328	604	607	←
Electricity Council and Boards	382	69	23	-102	- 68	
British Gas Corporation	184	-204	-495	-429	-450	
British Steel Corporation	654	946	806	752	700	←
Post Office	310	216	-138	- 72	150	
British Airways Board	71	17	87	66	172	
British Railways Board	582	501	532	620	713	←
<u>Profit (Loss)</u>	1975/76 ¹	1976/77 ¹	1977/78 ¹	1978/79 ¹	1979/80 ²	
National Coal Board ⁵	(27.1)	(27.3)	(54.6)	(191.4)	(273)	←
Electricity Council and Boards	8.5	206.5	132.8 ³	251.4 ³	188 ³	
British Gas Corporation	25.1	31.5 ³	103.9 ³	172.3 ³	395 ³	
British Steel Corporation	(255)	(95)	(443)	(309)	(324)	←
Post Office	147.8 ³	290.6 ³	367.3 ³	375.1 ³	213 ³	
British Airways Board	(16.3)	35.1	32.5	77.3	20	
British Railways Board ^{4&5}	(327.6)	(333.7)	(347.4)	(443.3)	(662)	←

(1) Post depreciation, interest, tax etc.

(2) Estimated outturn - post interest and depreciation but pre-tax.

(3) After supplementary depreciation

(4) Calendar year figures

(5) After deducting grants

E(EA)

FILE

VLS

Nat Ind.

Emp.
Env.
Scotland
Wales
Trade
Energy
Chief Sec.



10 DOWNING STREET

+ C.O.
CPRS

From the Private Secretary

19 November 1979

Nationalised Industries: Current Cost Accounting

The Prime Minister was grateful for your Secretary of State's note of 15 November reporting on the E(EA) discussion on 13 November. She is content with the Committee's conclusions.

I am sending copies of this letter to the Private Secretaries to members of E(EA), to Gerry Spence (C.P.R.S.) and to Martin Vile (Cabinet Office).

T. P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.

ESG



PRIME MINISTER

NATIONALISED INDUSTRIES: CURRENT COST ACCOUNTING

At the meeting of E(EA) on 13 November, we considered a paper from the Chief Secretary about the introduction of current cost accounting in the nationalised industries. I need not trouble you with the detail of the discussion (which is set out in the minutes: E(EA)(79)20th Meeting, Item 1). But you may like to know that the Sub-Committee broadly approved a move to inflation accounting in the nationalised industries on the lines suggested by the Accountancy Profession in their recent Exposure Draft. Some adjustments will be needed to fit these proposals to the special circumstances of nationalised industries.

The important political point is that, although the Treasury proposals will somewhat reduce the published profits of nationalised industries, they will not, of themselves, have any effect on prices. Our pricing decisions in the main industries are either determined by the market, or are set by reference to longer-term economic criteria, including our energy conservation policy and the need to earn a proper return, in real terms, on the nation's investment in these industries. The way in which we present the results is an important but secondary issue, which does not affect the prices they will charge to their customers.

/I am ...

Prime Minister - Don't think
I think this is sensible:
it should put more pressure
on the nationalised industries
to improve efficiency and
it will not mean higher
prices.

Agreed
ms

12
16/11



I am reporting this discussion only because it may be of some political interest, and we may come under attack from the Opposition for making these changes. However, I am satisfied that we have a reasonable defence, on the lines indicated above. The next steps will be for the Chief Secretary, Treasury to discuss these proposals with the Nationalised Industry Chairmen. He does not expect any serious opposition.

I am sending copies of this minute to the other members of E(EA) and Sir Kenneth Berrill and Sir Robert Armstrong.

KJ

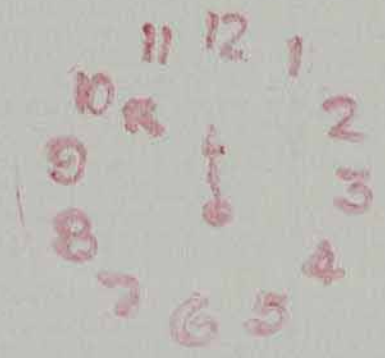
K J

15 November 1979

Department of Industry
Ashdown House
123 Victoria Street



15 NOV 1979



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Extremely faint, illegible text covering the lower half of the page, possibly bleed-through or very light printing.



TL
Next Ind
R 9/14

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

8 November, 1979

As with

NATIONALISED INDUSTRIES' EXTERNAL FINANCING LIMITS

...
...
As you probably know, Sir Francis Tombs has written to me asking for an early meeting between Ministers and the Nationalised Industries' Chairmen's Group, which would discuss the nature of the external financing limits set for the industries, and the Government's attitude towards the allowance to be made within the limits for labour costs. For convenience, I attach a copy of Tombs' letter and of my reply.

Following the Cabinet decisions yesterday, I hope that you and the other nationalised industry sponsor Ministers, to whom I am copying this letter, will be able to arrange very early meetings with the Chairmen concerned, to let them know the figures set by the Government. Given our intention to publish the figures on 16th November, we need to move very quickly on this. Although the Chairmen are not committed to our figures, I believe that the consultations which have already taken place between the industries and the officials concerned in the preparation of the figures should result in their acceptance. Our explicit acceptance of the difference between "external financing limits" set for the industries and "cash limits" as applied in the public services, and of the consequences for Government and the industries should pay and prices deviate from the expected path, should reassure the Chairmen that we are conscious of the problems they could face.

When you (and our other colleagues concerned) talk to the Chairmen, you will want at the same time to ensure that they are under no misapprehensions about our intentions on pay. In doing so, I suggest that you should emphasise the following points:

- (i) There has never been any question of the Government setting a norm of 17½ per cent (or any other figure) for nationalised industry pay increases.

The Rt. Hon. Sir Keith Joseph, M.P.



(ii) What we said was that we should be looking for a reduction in real unit labour costs in nationalised industries in 1980-81, i.e. that - assuming constant output - the paybill should rise by less than the expected increase in the RPI between 1979-80 (taken as a whole) and 1980-81. The FSBR forecast in June put the increase at 13½-14 per cent (and you could tell them in confidence that we are using a rather similar assumption in fixing next year's RSG cash limits). We specifically did not say that the pay bill, let alone the pay of individuals, should increase by the change in the RPI over the 12 months to October or November this year.

(iii) How large a reduction in real unit labour costs can be achieved depends on the particular circumstances of each industry.

(iv) The scope for pay increases depends to a large extent on how far each industry can improve its productivity.

(v) It is essential that nationalised industries secure reductions in real unit labour costs as a vital contribution to the task of squeezing inflation out of the economy. The Government attach importance to the setting of performance aims for costs, particularly for the monopoly industries.

On pay monitoring, we should stick broadly to our decisions reached at E on 20th September. We should make it clear that the Government are not asking to approve pay offers made by the industries - that is the responsibility of management. But we must know when there is any threat or risk of a breach in the external financing limits so that we can discuss with the industry concerned in good time what action should be taken to deal with it. We also need to make sure that we and the industries are in a position to take into account the possible repercussions of any proposed settlement. It may well be that we shall need to encourage an industry to stand firm - even at the expense of a breach in its external financing limit - rather than make a settlement which other industries, possibly less able to afford it, would be under heavy pressure to follow. This is not a matter on which we want to make detailed rules; rather we should rely on the good sense of the industries to comply with the spirit of our decisions, building on the close relationship already established between them and sponsor Departments. But we should leave the Chairmen in no doubt that we do need to know what is going on, and that we shall not be willing to finance inflationary settlements.

CONFIDENTIAL



It may be helpful to explain to the Chairmen what we shall be saying about the inflation assumptions underlying the external financing limits. Our line will be that the limits for nationalised industries are different from cash limits in the public services, because the industries' limits apply to financing, not expenditure. This covers a multitude of different elements, which vary widely between the industries, but the assumptions used are broadly compatible with those used in setting the RSG cash limits.

It is possible that the Chairmen will ask when they can expect to discuss with Ministers their recent paper about the Framework of Financial Discipline. I understand that the interdepartmental official Committee is to make a start on this next week, with a view to including discussion of it in their general report to Ministers about nationalised industry policy which is due to be delivered to you by the end of this month. So sponsor Ministers could say, if asked, that we hope to be in a position to hold a meeting before Christmas.

I am sending copies of this letter to the Prime Minister, Jim Prior, Michael Heseltine, George Younger, John Nott, David Howell, Norman Fowler and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe', with a horizontal line underneath.

GEOFFREY HOWE

CONFIDENTIAL

- 8 NOV 1949



Nationalised Industries' Chairmen's Group

5980
1198

Chairman
Sir Francis Tombs †

TOP COPY CH/EX
CH/EXCHEQUER

ACR 47

PO Box 403
33 Grosvenor Place
London SW1X 7JG

01-235 1212

REC.	26 OCT 1979
ACTION	M ^{rs} Norton
COPIES TO	CST, FST, MST, (ST/4)
MP,	Sir D. Wass.
	Sir L. Airey
	Sir A. Rawlinson

October 1979

The Rt. Hon. Sir Geoffrey Howe, QC, MP,
Chancellor of the Exchequer,
H.M. Treasury,
Parliament Street,
London, SW1P 3HE.

M^{rs} J. Jones
M^{rs} Dixon
M^{rs} Barratt
M^{rs} Wicks M^{rs} Tonblanque
M^{rs} Walker M^{rs} Ridley

Dear Chancellor,

Framework of Financial Discipline

Having returned from leave, I am writing to follow up Bill Barlow's letter of 18 October, covering our paper on the Framework of Financial Discipline.

Since the paper is a comprehensive one, we appreciate that you and your colleagues may need a little time before you are ready to discuss it as a whole. Nevertheless, we hope that the opening of talks will not be long delayed, since the broad issues raised - and especially the primacy of the Financial Targets vis-a-vis the Cash Limits - ought to be shaping current developments.

Meanwhile, two points are causing my colleagues and me immediate concern. The first is that discussions on Cash Limits are moving forward at a rate which appears to ignore all the complications attendant on the special character of the Corporations' "external financing limits": here, as you know, we have suggested a palliative. The second concerns the letters sent out recently by most of the sponsoring Secretaries of State about the pay aspects of the Cash Limit calculations and the future monitoring of negotiations, where the wording has left the Corporations both worried and confused in equal measure, and the highly-unfortunate leakage to the Press is already provoking hostile Union reactions. I hope that you will agree to meet the Chairmen's Group to discuss these immediate issues as soon as possible, ahead of the wider-ranging talks referred to in my previous paragraph.

Yours sincerely,

Frank Tombs

URGENT
Advices

† Correspondence directed particularly to the Chairman of the Group should be sent to:
The Electricity Council, 30 Millbank, London SW1P 4RD



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

5th November 1979

Dear Sir Frank,

W 57
F 17
Sir O Wals
Sir A Rawlinson
Sir L Army
Mr Jones
Mr Little
Mr Fee Butler
Mr Lavelle
Mr Davis
Mr Wick
Mr Norton
Mr Kerr
Mr Robson
Mr Ridley

tb

FRAMEWORK OF FINANCIAL DISCIPLINE

I am sorry that it has taken rather longer than I had hoped to give you a first reaction to the very valuable paper on this subject which Bill Barlow sent me on 18th October.

As you will have seen, the White Paper on Public Expenditure in 1980/81 did not give figures for individual industries, but only a single figure for total borrowing. This is in line with a suggestion in your paper.

So far as cash limits are concerned I think you recognise that it will not be possible to complete discussions of your paper in time for this round. As I think you know, the Government has decided to set limits for individual industries this autumn before major pay settlements are concluded and the aim is to announce these later this month. We have of course noted your doubts about the effectiveness of cash limits in the pay area but we consider that it is right to get the limits in place in good time. Sponsor Ministers will be getting in touch with the Chairmen about this urgently, and will of course deal with the two questions you raise in your letter of 24th October. I do not expect that a collective meeting with me would add much to that even if it were possible to fix one in the time available.

Meanwhile, however, it may be helpful if I make one or two general points. First we agree that it would be useful to recognise the special nature of the limits in the case of the nationalised industries, which as you say was acknowledged in Cmnd 6440 by adopting the term "external financing limit". It will remain true that "there will be no presumption that a financing deficit will be met by a further injection of external finance" even if prices or

/pay rise

Sir Francis Tombs



pay rise faster than assumed when the limit is fixed. But we accept that in such a case the industries can reasonably expect the Government "either to reconsider their ... limits or alternatively to accept the need for whatever action is necessary to enable them to stay within those limits". We cannot have it both ways.

I recognise that in this letter I am giving a reaction to only a few of the important points you have raised. I look forward to a full discussion later this year.

A handwritten signature in cursive script, which appears to read "Geoffrey Howe".

(GEOFFREY HOWE)



H M Treasury
Parliament Street London SW1P 3AG

Switchboard 01-233 3000

Direct Dialling 01-233

P G Davies
Press Secretary and
Head of Information Division

Henry James Esq
10 Downing Street

11 October 1979

Dear Henry,

MIRROR STORY ON NATIONALISED INDUSTRIES' PAY

We spoke earlier this morning about Geoffrey Goodman's splash story in the Daily Mirror today on Ministerial guidance on pay to heads of nationalised industries.

I can confirm that most sponsor Ministers have sent out letters to the chairmen of the nationalised industries and the water industry about the Government's intention to set cash limits in advance of pay negotiations.

As to press guidance, we settled on a preliminary line when we spoke; but I now attach some formal briefing prepared by the division here responsible for policy on the nationalised industries.

*Yours ever,
Peter*

P G DAVIES

cc.

R Prescott - Paymaster General's Office
J Woodrow - Dept/Industry
R Goodfellow - Dept/Transport
J Hewlett-Davies - Dept/Environment
I Gillis - Dept/Energy
M Garrod - Dept/Trade

CCT Gov

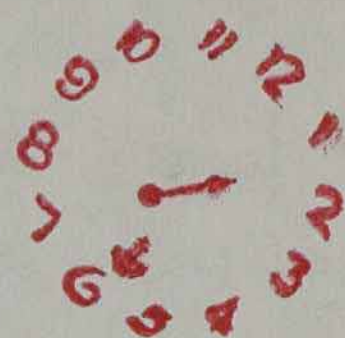
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13.30hr
Nat.
11/10/79
Inds*

GEOFFREY GOODMAN STORY ON "TOUGH PAY CURB ON STATE FIRMS"

Line to Take

- a) Discussions about next year's cash limits for nationalised industries are now going on.
- b) The basis of those discussions is in no way "an astonishing switch of policy by the Tories". The Manifesto said that the nationalised industries would be set "a clearer financial discipline" (page 15). It also said that "high productivity is the key to the future of industries like British Rail where improvements would benefit both the work force and passengers who have faced unprecedented fare increases over the last 5 years". Setting the cash limits is an important part of that discipline.
- c) The Ministerial guidance does not say that pay rises should be less than the forecast increase in the retail prices index. What it says is that the pay bill (in a case where output is constant) should rise by less than the RPI and that therefore labour costs per unit of output should fall in real terms, as envisaged in the Manifesto reference to British Rail.
- d) There was no suggestion of **uniform pay settlements**. Ministers specifically said that there would need to be wide variations reflecting the specific circumstances of each industry. Real earnings can rise provided productivity rises.
- e) The Manifesto stressed the need to restore responsible pay bargaining. Realistic financial disciplines are an important way of bringing home to people the consequences of their actions. As the Chancellor said in the Budget Speech, higher pay without higher productivity can lead only to higher inflation and unemployment.

11 OCT 1979





✓ 11/10
Wmy

Ce I Gow

Nat
Ind.

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

11 October 1979

Nick Sanders Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW 1

R.
Sent to Blackburn

Dear Nick,

We spoke earlier about the Daily Mirror front page article on a letter sent by my Secretary of State to nationalised industry chairmen about pay and cash limits. 11/10

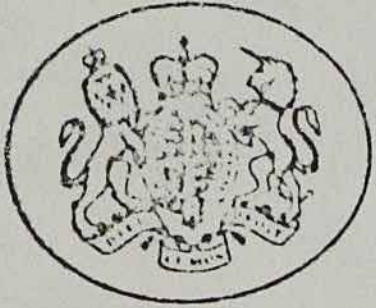
The article is substantially correct in that a letter has been sent by my Secretary of State to the chairmen of three of the four nationalised industries for which he is responsible but he has not yet written to the chairman of British Steel. The letter was drafted by Treasury officials as a result of the decision taken by Ministers at E Committee on 20 September, item 2. Accordingly I have asked Martin Hall to provide you with a short note and line to take for Ministers should they be questioned about the letter. The Mirror article is inaccurate in two respects. First, my Secretary of State has not, of course, written to the chairmen of all nationalised industries. This misunderstanding probably arises from the drafting of the letter. The second, and crucial, inaccuracy is that the article says that "the letter insists that all pay rises for these workers should be "less than the forecast increase in the retail price index". The letter in fact says that in broad terms the pay bill (in terms of unit labour costs) should go up by less than the forecast increase in the retail prices index. That would allow industries to make higher pay awards provided they were offset by increased productivity.

... I attach copies of the letters sent by my Secretary of State to the three chairmen. As you will see the crucial paragraphs are identical.

I am copying this letter to Martin Hall at the Treasury and to Ian Fair at the Department of Employment. I am also copying it to the private secretaries to the Secretaries of State for the Environment, Scotland, Trade and Energy, the Minister of Transport and Sir John Hunt.

Yours ever,
Pete

PETER STREDDER
Private Secretary



Secretary of State for Industry

Mr Butler
Mr Marshall
Secretary
Mr Dearing
Mr Ridley
Mr Lippitt
Mr Farrow
Mr Gross
Mr Russell
Mr Treadgold
Mr Croft
Mr Burbridge
Mr Irwin
Mr Nieduszynski
Mr. George

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

4 October 1979

Admiral Sir Anthony Griffin GCB
British Shipbuilders
243 Knightsbridge
London SW7 1DG

Sir Admiral

I am writing to let you know the Government's intentions on the setting of cash limits for next year and their implications for pay bargaining in the nationalised industries.

As you know, the Government's aim is to reduce the burden of financing the public sector and to cut inflation. We believe that the system of cash limits in the public sector has a key role to play in achieving this aim. We have accordingly decided that the cash limits for all the nationalised industries should be set this autumn, before any major pay settlements in the industries have been concluded. This, I am afraid, sets a tight timetable for our discussions with you.

The Government's explicit intention is that the cash limits so set should exert a downward pressure on the level of pay settlements. However, as you know, we are determined to avoid specifying any sort of pay norm.

If the cash limits are to be credible and realistic they will need to be founded on a considered view of each industry's prospects for next year, and so will need to reflect forecasts of prices, costs (including pay costs), output and investment. The fact that the cash limits will depend to an important extent on judgements about the appropriate allowance for increases in the pay bill was clearly recognised at the meeting we had with the Nationalised Industries Chairmen's Group on 23 July.

In approaching the judgments about the appropriate allowances for increases in the pay bill, sponsoring departments will be starting from a general presumption - consistent with the Government's overall determination to counter inflationary pressures - that real costs per unit of output should fall. In very broad terms this means that each industry's pay bill (in terms of unit labour costs) should go up by less than the forecast increase in the retail prices index. The extent of the reduction in real unit costs will need to be explored in discussions between the sponsoring departments and the industries; the margin - which is bound to vary markedly from industry to industry - will need to reflect the specific circumstances of each of them, and take into account factors like performance

/aims ...



aims where these already exist or are proposed. The discussions will need to cover as well assumptions about increases in costs other than pay, and about prices, output and investment.

The Government's intention is to publish the cash limits some time in November and this implies firm decisions by late October. I suggest therefore that officials from the Departments of Industry and Treasury should start discussions with yours as soon as possible.

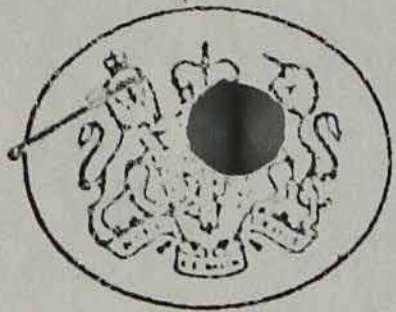
The cash limits, once set in this way, will present a considerable challenge to the industries. In this situation, we attach particular importance to effective monitoring of each industry's performance, so that action necessary to avert a threatened breach in a cash limit can be taken at the earliest possible moment. The existing monthly and quarterly returns provide a part of the necessary framework for this monitoring, and are usefully complemented by the cash flow forecasts that you send us when you need to draw more long-term finance. It will also be important for returns to be made expeditiously. Furthermore, as experience during the current year has shown, the pressure of pay negotiations may constitute a particularly dangerous threat to the cash limits, and the Government have therefore concluded that the industries should be asked to consult their sponsoring departments before entering into commitments in any major pay negotiations, (including those involving productivity bargaining).

In asking the industries to keep sponsor departments informed in this way of the progress of pay negotiations, the Government are not seeking to make judgments about the appropriate pay levels for particular industrial groups. Our objective is to secure essential information about developments which could lead to breaches in cash limits, whether in the industry directly involved or in other nationalised industries where in the past pay settlements in one industry have - however unjustifiably - had repercussions in another. The fact that the pay bill element in costs will have been identified in the course of the construction of the cash limit figures should help considerably in judging the implications of particular pay offers. I must emphasise that it will be up to the industries concerned to put forward proposals for any action necessary to accommodate pay settlements that would raise the pay bill above the level contemplated at the time the cash limits were set; the Government's concern is only to ensure that such action as is necessary to avert a breach in the cash limits is taken as quickly as possible.

We recognise that our decisions will not be easy for the industries to implement. Detailed discussions of the trading and financial prospects of each industry will need to be completed in a very short time. But there is no room for delay if the cash limits are to serve the purpose the Government intend, and we therefore look for the support of the Chairmen as an essential element in our plan of action to squeeze out inflation.

I am writing in similar terms to Chairmen of the other industries for which I am responsible.

Yours sincerely, K. Rosen



DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
 Witchboard 01-212 7676

Secretary of State for Industry

Mr. Butler
 Mr. Marshall
 Secretary
 Mr. Deakin
 Mr. Ridley
 Mr. Lippitt
 Mr. Farver
 Mr. Russell
 Mr. Gross
 Mr. Threadgold
 Mr. Croft
 Mr. Burbidge
 Mr. Lightwood
 Mr. Naduszynski
 Mr. Buckley

2 October 1979

The Rt Hon The Lord Beswick JP PC
 Chairman
 British Aerospace
 Brooklands Road
 Weybridge
 Surrey

Dear Frank,

I am writing to let you know the Government's intentions on the setting of cash limits for next year and their implications for pay bargaining in the nationalised industries.

Of course our aim is to introduce a substantial private sector shareholding into British Aerospace during 1980/81: and once that has taken place cash limits will no longer be applied. However, it seems necessary to establish a cash limit for 1980/81 as a contingency measure in case flotation should be delayed.

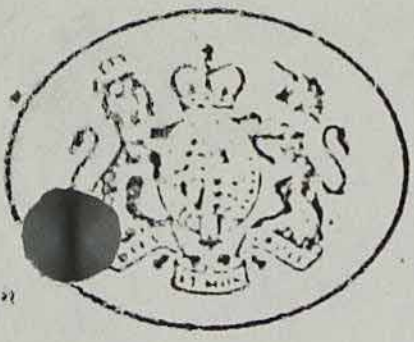
As you know, the Government's aim is to reduce the burden of financing the public sector and to cut inflation. We believe that the system of cash limits in the public sector has a key role to play in achieving these aims. We have accordingly decided that the cash limits for all the nationalised industries should be set this autumn, before any major pay settlements in the industries have been concluded. This, I am afraid, sets a tight timetable for our discussions with you.

The Government's explicit intention is that the cash limits so set should exert a downward pressure on the level of pay settlements. However, as you know, we are determined to avoid specifying any sort of pay norm.

If the cash limits are to be credible and realistic they will need to be founded on a considered view of each industry's prospects for next year, and so will need to reflect forecasts of prices, costs (including pay costs), output and investment and the need for adequate profits. The fact that the cash limits will depend to an important extent on judgements about the appropriate allowance for increases in the pay bill was clearly recognised at the meeting we had with the Nationalised Industries Chairmen's Group on 23 July.

In approaching the judgements about the appropriate allowance for increases in the pay bill, sponsoring departments will be starting from a general presumption - consistent with the Government's overall determination to counter inflationary pressures -

/that ...



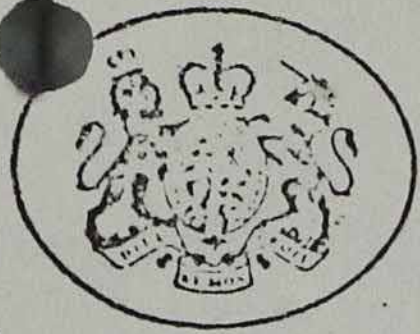
that real costs per unit of output should fall. In very broad terms, this means that each industry's pay bill (in terms of unit labour costs) should go up by less than the forecast increase in the retail prices index. The extent of the reduction in real unit costs will need to be explored in discussions between the sponsoring departments and the industries; the margin - which is bound to vary markedly from industry to industry - will need to reflect the specific circumstances of each of them, and take into account factors like performance aims where these already exist or are proposed. The discussions will need to cover as well assumptions about increases in costs other than pay, about prices, output and investment and about demand, the market and profits.

The Government's intention is to publish the cash limits sometime in November and this implies firm decisions by late October. I suggest therefore that officials from the Department of Industry and Treasury should start discussions with yours as soon as possible.

The cash limits, once set in this way, will present a considerable challenge to the industries. In this situation, we attach particular importance to effective monitoring of each industry's performance, so that action necessary to avert a threatened breach in a cash limit can be taken at the earliest possible moment. The existing monthly and quarterly returns provide a part of the necessary framework for this monitoring, but this framework will in some cases need to be buttressed by a forecast of the time-profile of the cash flow through the year with which the subsequent outturns can be compared. It will also be necessary for returns to be speeded up in the case of those industries which do not at present meet the deadlines. Furthermore, as experience during the current year has shown, the pressure of pay negotiations may constitute a particularly dangerous threat to the cash limits, and the Government have therefore concluded that the industries should be asked to consult their sponsoring departments before entering into commitments in any major pay negotiations (including those involving productivity bargaining).

In asking the industries to keep sponsor departments informed in this way of the progress of pay negotiations, the Government are not seeking to make judgements about the appropriate pay levels for particular industrial groups. Our objective is to secure essential information about developments which could lead to breaches in cash limits, whether in the industry directly involved or in other nationalised industries where in the past pay settlements in the first industry have - however unjustifiably - had repercussions. The fact that the pay bill element in costs will have been identified in the course of the construction of the cash limit figures should help considerably in judging the implications of particular pay offers. I must emphasise that it will be up to the industries concerned to put forward proposals

/for ...



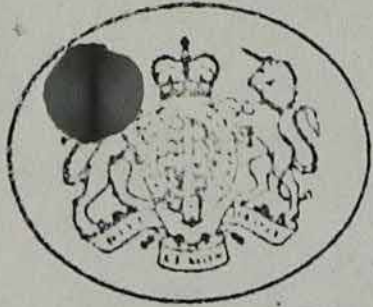
for any action necessary to accommodate pay settlements that would raise the pay bill above the level contemplated at the time the cash limits were set; the Government's concern is only to ensure that such action as is necessary to avert a breach in the cash limits is taken as quickly as possible.

We recognise that our decisions will not be easy for the industries to implement. Detailed discussions of the trading and financial prospects of each industry will need to be completed in a very short time. But there is no room for delay if the cash limits are to serve the purpose the Government intend, and we therefore look for the support of the Chairmen as an essential element in our plan of action to squeeze out inflation.

I am writing in similar terms to Chairmen of the other industries for which I am responsible.

Erskine

Keir



Secretary of State for Industry

Mr Marshall
Secretary
Mr Dearing
Mr Ridley
Mr Lippitt
Mr Farrow
Mr Gross
Mr Russell
Mr Treadgold
Mr Croft
Mr Burbridge
Mr Irwin or
Mr Nieduszynski

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

2 October 1979

Sir William Barlow
Post Office
23 Howland Street
London W1P 6HQ

Dear Bill.

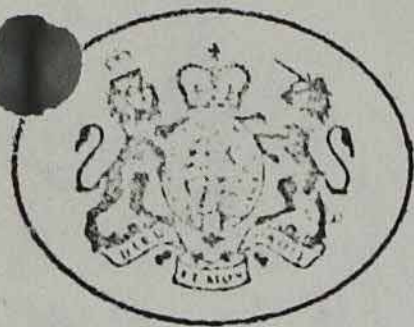
Following our discussions recently, which I look forward to resuming with you shortly, on this year's cash limit I am now writing to let you know the Government's intentions on the setting of cash limits for next year and their implications for pay bargaining in the nationalised industries.

As you know, the Government's aim is to reduce the burden of financing the public sector and to cut inflation. We believe that the system of cash limits in the public sector has a key role to play in achieving these aims. We have accordingly decided that the cash limits for all the nationalised industries should be set this autumn, before any major pay settlements in the industries have been concluded. This, I am afraid, sets a tight timetable for our discussions with you.

The Government's explicit intention is that the cash limits so set should exert a downward pressure on the level of pay settlements. As you know, we are determined to avoid specifying any sort of pay norm. If the cash limits are to be credible and realistic they will need to be founded on a considered view of each industry's prospects for next year, and so will need to reflect forecasts of prices, costs (including pay costs), output and investment and the need for adequate profits. The fact that the cash limits will depend to an important extent on judgments about the appropriate allowance for increases in the pay bill was clearly recognised at the meeting we had with you and your colleagues on 23 July.

In approaching the judgments about the appropriate allowance for increases in the pay bill, sponsoring departments will be starting from a general presumption - consistent with the Government's overall determination to counter inflationary pressures - that real costs per unit of output should fall. In very broad terms, this means that each industry's pay bill (in terms of unit labour costs) should go up by less than the forecast increase in the retail prices index. The extent of the reduction in real unit costs will need to be explored in discussions between the sponsoring departments and the industries; the margin - which is bound to vary markedly from industry to industry - will need to reflect the specific circumstances

/of each....



of each of them, and take into account factors like performance aims where these already exist or are proposed. The discussions will need to cover as well assumptions about increases in costs other than pay, about prices, output and investment, and about demand, the market and profits.

The Government's intention is to publish the cash limits some time in November and this implies firm decisions by late October. I suggest therefore that officials from the Department of Industry, and Treasury should start discussions with yours as soon as possible with a view to you and me meeting in about ten days' time.

The cash limits, once set in this way, will present a considerable challenge to the industries. In this situation, we attach particular importance to effective monitoring of each industry's performance, so that action necessary to avert a threatened breach in a cash limit can be taken at the earliest possible moment. The existing monthly and quarterly returns provide a part of the necessary framework for this monitoring, but this framework will in some cases need to be buttressed by a forecast of the time-profile of the cash flow through the year with which the subsequent outturns can be compared. It will also be necessary for returns to be speeded up in the case of those industries which do not at present meet the deadlines. Furthermore, as experience during the current year has shown, the pressure of pay negotiations may constitute a particularly dangerous threat to the cash limits, and the Government have therefore concluded that the industries should be asked to consult their sponsoring departments before entering into commitments in any major pay negotiations (including those involving productivity bargaining).

In asking the industries to keep sponsor departments informed in this way of the progress of pay negotiations, the Government are not seeking to make judgments about the appropriate pay levels for particular industrial groups. Our objective is to secure essential information about developments which could lead to breaches in cash limits, whether in the industry directly involved or in other nationalised industries where in the past pay settlements in the first industry have - however unjustifiably - had repercussions. The fact that the pay bill element in costs will have been identified in the course of the construction of the cash limit figures should help considerably in judging the implications of particular pay offers. I must emphasise that it will be up to the industries concerned to put forward proposals for any action necessary to accommodate pay settlements that would raise the pay bill above the level contemplated at the time the cash limits were set; the Government's concern is only to ensure that such action as is necessary to avert a breach in the cash limits is taken as quickly as possible.

We recognise that our decisions will not be easy to for the industries to implement. Detailed discussions of the trading and financial prospects of each industry will need to be completed in a very

/short time....



3.

short time. But there is no room for delay if the cash limits are to serve the purpose the Government intend, and we therefore look for the support of the Chairmen as an essential element in our plan of action to squeeze out inflation.

We are also writing to the Chairmen of other nationalised industries.

Y
Levin,

Kerr



Nat Ind

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/14663/79

Your ref:

21 September 1979

Dear Keith

Mike

NATIONALISED INDUSTRY PAY QUESTIONS

Thank you for sending me a copy of your letter of 13 August to Geoffrey Howe on this.

I agree in principle with the approach you propose. I have some hesitation, however, in applying it to the water industry in view of its links with local government. Whilst I certainly would not wish to insist on formal clearance of pay offers in advance, I think it would be a mistake to disturb the present arrangements whereby we are kept in touch with negotiations as they develop. And I would aim to maintain a similar relationship with the British Waterways Board which, of course, comes into your special category of a loss-making industry where taxpayers' money is being used to meet the pay bill.

So I hope you and Geoffrey Howe will agree that whatever is said to the NI Chairman at this stage should be in more general terms, spelling out our philosophy of how pay matters should be handled, and emphasising the need to know in advance about industrial action, or about circumstances that might lead to a breach of the cash limit, but leaving open the question of how and when general liaison would be maintained. Perhaps the letter might promise separate consultation between individual sponsor departments and their industries on this.

I am copying this letter to the recipients of yours.

Yes
Mike

MICHAEL HESELTINE

The Rt Hon Keith Joseph MP

24 SEP 1979

10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

CONFIDENTIAL

PRIME MINISTER

Nationalised Industries Investment and Financing Review:
1981-82 to 1983-84

(C(79) 37)

See: Econ. Pol., Pt 4, Pub. Expⁿ.

BACKGROUND

This paper is really a companion-piece to the Chancellor's main 'Public Expenditure' paper. The reductions in nationalised industry borrowing forecasts in this paper have helped the Chancellor's overall strategy. At the very least it is important to make sure that they do not come unstuck at this or subsequent Cabinet meetings. But given the sheer size of nationalised industry operations you may want to urge the responsible Ministers to try and do even better especially on the expenditure side. Is Mr. Howell for example convinced that the electricity investment programme is soundly based given the overhang of a 40 per cent plant margin?

2. A main uncertainty in the forecasts concerns gas and electricity prices: the Chancellor's proposals assume that Ministers will sanction quite large increases in both, to move towards economic pricing for all fuels. Once again, Mr. Howell is bringing proposals to E fairly soon (and you might urge him to make sure that the paper comes forward no later than mid-October, because of its relevance to the cash limits decision).

3. Another relates to coal where Mr. Howell is due to bring a paper to E Committee either on 20th or 27th September. Given the difficult state of the NCB's finances and the importance of the NUM's forthcoming pay claim it would be worth asking Mr. Howell to ensure that his recommendations come forward in good time. Papers from his Department tend to slip and a public push by you could help to ensure that colleagues are not asked for decisions in undue haste.

4. The figures for steel, shipbuilding and Post Office are reasonably firm. There may be minor disputes over Railways and Airways and Airports. In all these cases, the Chancellor's tactics will be to try and secure agreement at this meeting to the general proposition, and have any detailed points

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remitted for the bilateral discussions with the Chief Secretary. The results can then be ratified at Cabinet on 18th or 25th October.

HANDLING

5. You could then ask the Chancellor to introduce his paper briefly. The main nationalised industry Ministers (Energy, Industry, Transport and Trade) should then be given a chance to speak: Scotland may also want to join in. But you might avoid any detailed discussion of particular points, merely asking the Ministers concerned to take the matters up in their bilateral discussions with the Chief Secretary.

CONCLUSIONS

6. You need two conclusions from this paper:-
- (i) To endorse the Chancellor's general approach.
 - (ii) To invite the Ministers concerned to pursue detailed points bilaterally with the Chief Secretary. You may also need to record a separate conclusion.
 - (iii) To invite the Secretary of State for Energy to bring forward in good time this month papers on coal and on gas and electricity pricing, to be taken into account in the resumed Cabinet discussion on October and in the discussion of cash limits.

JOHN HUNT

(John Hunt)

12th September 1979

CONFIDENTIAL



Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

2 3/4
30 August 1979

Dear Secretary of State.

NATIONALISED INDUSTRY PAY QUESTIONS

You sent me a copy of your letter of 13 August to Geoffrey Howe, and I have also seen a copy of Nigel Lawson's reply.

I too feel that this problem is not an easy one, and consider it might be best for it to be discussed at E Committee on 11 September.

I am sure you are right that we shall need to ask the nationalised industries to consult us in advance if pay negotiations are likely to lead to settlements which breach cash limits or financial targets, and also to give us clear early warning of possible industrial disputes. It could be that many of the major claims in this sector will fall into one or other category. But your proposal that in other cases a nationalised industry should inform us of its pay settlements only after they are reached will give us no room for manoeuvre in seeking to avert undesirable repercussions on other nationalised industries. I recognise the force of the arguments about not interfering unnecessarily in their affairs. But the fact is that workers in many of these industries have long been accustomed to keep a very close eye on each others' pay negotiations, and to expect similar treatment. Our objective must be to inculcate more reasonable expectations, based on what the particular industry can afford. But there can be no doubt that this is going to be a long and difficult task, and I think we may handicap ourselves unnecessarily if we do not seek to provide ourselves with the full range of relevant information - which includes advance information about, and the opportunity to comment on, possible repercussions.

I am sending copies of this letter to the recipients of yours.

Yours sincerely
John Anderson

Approved by the Secretary of
State

SEP 1979
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CONFIDENTIAL



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10 DOWNING STREET

From the Private Secretary

23 August 1979

Dear Peter

The Prime Minister has seen your Secretary of State's letter to the Chancellor of the Exchequer of 13 August on nationalised industry pay questions.

She takes the view that the issues raised in Sir Keith's letter should be considered at E in September when the question of pay and cash limits is considered. With this in mind, she would like the Chancellor's own paper on pay and cash limits in the nationalised industries to address itself to the specific issues raised in Sir Keith's letter.

I am sending copies of this letter to the Private Secretaries to Members of E Committee and to the Secretaries of State for Scotland, Northern Ireland and Wales, to the Minister of Transport and to Martin Vile (Cabinet Office).

Yours ever

Mike Paterson

Peter Stredder, Esq.,
Department of Industry.

CONFIDENTIAL

[Handwritten initials]

✓ MAY



SECRETARY OF STATE FOR ENERGY
 THAMES HOUSE SOUTH
 MILLBANK LONDON SW1P 3BQ

211 6402

The Rt Hon Sir Geoffrey Howe QC MP
 Chancellor of the Exchequer
 HM Treasury
 Whitehall
 London SW1

21 August 1979

Dear Sir

NATIONALISED INDUSTRY PAY QUESTIONS

Keith Joseph sent me a copy of his letter to you of 13 August.

I very much agree with him that it will be necessary to explain our approach to pay questions and the corresponding requirement for information to the industries at a level and in a manner which is both authoritative and uniform. Clearly, letters from you to the Chairman would achieve this.

I doubt, though, whether we are yet in a position to state our position fully. The first stage, it seems to me, must be to discuss with our industries, and with colleagues, the practical consequences of establishment of cash limits for 1980/81 in November of this year, including, crucially, assumptions about 1980/81 wage costs and thus the 1980 pay settlements. The extent to which we are able to agree firm figures at this stage will I think have an important influence on the extent to which we shall require further information from the industries as their pay negotiations commence. I have doubts, for example, as to whether we shall be able to restrict ourselves, so far as the loss-making industries are concerned, only to information about productivity deals.

I would therefore like to suggest that no letters be sent for the present but that we should take up the proposal again once we are clearer on the outcome of the cash limits exercise.

I am copying this letter to the Prime Minister, Members of E Committee, to the Secretaries of State for Scotland, Northern Ireland and Wales, to the Minister of Transport and to Sir John Hunt.

D A R Howell

Howell
David



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22 AUG 1979



✓ MAP
NB Copy to
Post Office file pl.

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State
Ashdown House
123 Victoria Street
LONDON
SW1

17 August 1979

NATIONALISED INDUSTRY PAY QUESTIONS

On 13 August you wrote to the Chancellor, who is now away, suggesting that early guidance should be given to the nationalised industries on how we wish to deal with individual pay negotiations.

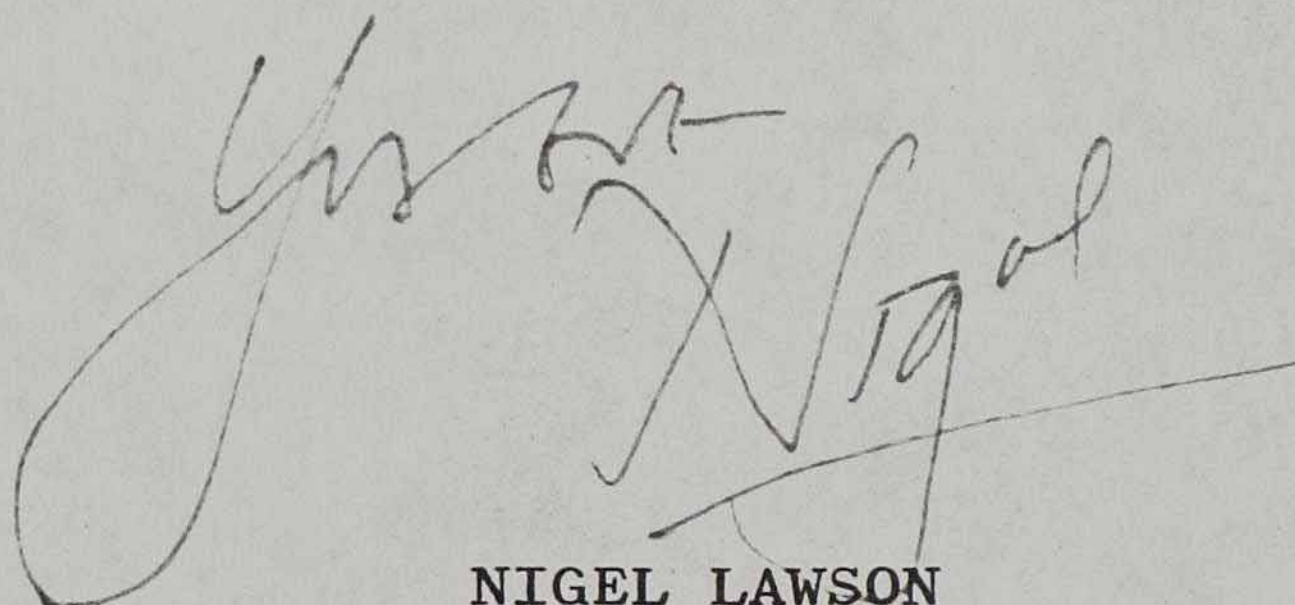
As you make clear in your letter the problem is not an easy one because of the need to strike a balance between different aspects of our policies. It seems to me that your proposals will therefore need careful consideration by colleagues and I would like to suggest that a suitable means of doing this would be to take account of them in the paper which is being prepared for the Chancellor on nationalised industry cash limits and performance targets and will also cover an improved information system for the nationalised industries. The intention is that this should be taken by E Committee on 11 September following up the meeting which discussed your paper on Pay Prices & Efficiency in Nationalised Industries.

I recognise that this would not allow us to act as swiftly as you suggest but it would allow your proposals to be tied in with our approach to nationalised industries cash limits. In the meantime the Chancellor has told the nationalised industries' Chairman (at his meeting with them on 23 July) that the Government are anxious to be kept in touch with the industries thinking and pay negotiations. Subject to correction from other colleagues, the timing of major nationalised industry settlements gives us scope for a little delay before giving any guidance.

In the meantime, it would be helpful to have the views of our colleagues sponsoring other nationalised industries on your proposals.

Incidentally, I have just seen your minute of 13 August to the Prime Minister about the Post Office. I support what you say. I cannot stress too strongly the importance of the Post Office being held to their cash limit this year not only from the point of view of maintaining financial discipline in the postal business but also because of the risk of undermining the cash limits system generally if we condone a breach in this instance. It also seems to me important to bring home to the unions involved in the dispute any consequences for employment of their actions: a point which you have emphasised in other contexts.

I am copying this letter to the Prime Minister, members of E Committee, the Secretaries of State for Scotland, Northern Ireland and Wales, the Minister of Transport and Sir John Hunt.

A handwritten signature in dark ink, appearing to read 'Nigel Lawson', is written over a horizontal line. The signature is fluid and cursive, with a large loop at the end.

NIGEL LAWSON

20 AUG 1979

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



✓ MAP
DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

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

August 1979

Yours
Geoffrey

I have seen a copy of Keith Joseph's letter to you of 13 August on national industry pay questions.

TPM
My nationalised transport industries span the whole spectrum from the profit-making BTDB, through the NFC which has to make its way in the highly competitive road haulage industry, to the NBC and British Rail which are both providing subsidised passenger services which are maintained for social reasons. We have good and close relations with all of them, and I believe our present links on pay matters should be adequate to meet the varying needs of our policies in this area. Nevertheless, there is certainly a good deal to be said for reminding the Chairmen before the new pay round gets under way of the need to maintain close relations on pay. I very much agree with Keith Joseph that a letter from you on the lines he suggests would be both timely and helpful.

I am sending copies of this letter to Sir Keith Joseph and other recipients of his letter.

Yours
Norman

NORMAN FOWLER

20 AUG 1978



PRIME MINISTER

Are you content for me to make the points at X and Y below on your behalf?

MR SAUNDERS

NATIONALISED INDUSTRY PAY QUESTIONS

Yes Mr. Ms . 16/8

[Flag A]

Sir Keith Joseph wrote to Sir Geoffrey Howe on 15 August proposing that the Chancellor should take an early opportunity of writing to the nationalised industry chairmen asking them to provide information on a systematic basis about pay settlements.

Sir Keith Joseph's underlying point is a good one: there is a potential conflict between Ministers' desire to receive regular information about pay settlements in the nationalised industries - which E Committee has already agreed is desirable - and avoiding excessive intervention on pay negotiations.

[Flag B]

However Sir Keith Joseph's minute does not mention the fact that E Committee has already agreed - at its meeting on 17 July - that the Chancellor should bring forward a paper for discussion at E in September spelling out in detail how control over cash limits in nationalised industries would be applied as a means of controlling pay settlements. How this applied is bound to be the starting point to considering what information it is reasonable to expect nationalised industries to supply to the Government - ie to put it crudely, the tighter the control which cash limits can be expected to exercise the less the need for detailed advanced information on proposed pay offers.

Because of the Chancellor's absence on holiday, a reply to Sir Keith Joseph's minute is likely to come from Mr Lawson recommending that the issues raised in Sir Keith's minute should be considered at E in September.

The Prime Minister might, however, feel that it was worth emphasising in a reply from your office -

X

- a. That the issues raised in Sir Keith Joseph's minute should be considered at E in September when the question of pay and cash limits is considered;

Y1
b. In order for this to be done, it would be helpful if the Chancellor's own paper on pay and cash limits in the nationalised industries could specifically address itself to the issues raised in Sir Keith Joseph's minute.

M.

N B W THOMPSON

[CABINET OFFICE]

14 August 1979



16 AUG 1979



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

A

Secretary of State for Industry

13 August 1979

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Whitehall
London SW1

Dear Chancellor,

NATIONALISED INDUSTRY PAY QUESTIONS

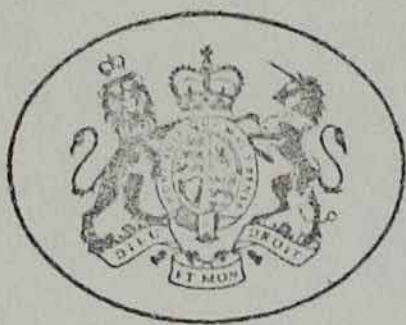
We discussed on 17 July (E(70)5th, item 2) our general approach to questions of pay, prices and efficiency in the nationalised industries on the basis of the proposals of the interdepartmental Committee on Nationalised Industry Policy (E(79)16). You outlined this approach when we met the nationalised industry Chairmen on 23 July but we have not so far explained to them how we wish to deal with individual pay negotiations.

Although the industries Chairmen undertook to develop their ideas on pay in a paper in September, I do not think that should preclude our taking an early opportunity to explain our position to them, particularly since 1 August represents the start of the new 'pay round'. Although different circumstances exist in different industries, it is important in my view that early steps are taken to ensure at least that the approach by Ministers to industries for which they are responsible is not inconsistent.

But before we can approach the Chairmen, we need to clarify our own thinking since it seems to me that there is a danger that we may be facing in two contradictory directions. On the one hand our main objective is clear; nationalised industry managements are to be free to run their own businesses and to decide on pay and pricing questions within the constraints laid down by their financial targets, cash limits and, where appropriate performance targets (and subject to the controls on anti-competitive practices being introduced under the Competition Bill). This means that pay and prices will be decided by the Boards concerned without reference to, or prior approval by, Government.

On the other hand, we have a legitimate interest in knowing how pay negotiations are progressing; we need to be warned of major disputes which can inflict harm on the economy as a whole so that we can prepare contingency plans; we need to have advance warning if nationalised industries are not going to remain within their targets and cash limits; and in loss-making industries we need to be particularly careful that public money is not used

/to increase.....



to increase pay without offsetting improvements in efficiency. These considerations led us to decide on 1 June (E(79)2nd, item 1) that those of us who are responsible for nationalised industries should keep each other informed of pay developments in their industries which might have repercussive effects in other areas.

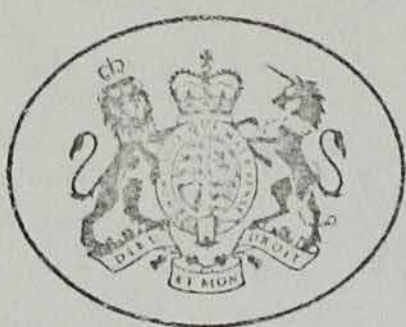
In deciding whether to monitor pay and how intensively, we need to reconcile the desire to obtain information with our general policy of leaving nationalised industries to manage their own affairs. Whatever system we adopt will need to be consistent with economy in manpower: we should avoid resurrecting the apparatus of pay control within Government established by our predecessors.

In my view it would be wrong to ask the nationalised industries to clear pay offers with us or to give us details of pay offers before they are made except if they would - but for remedial action which we would expect any industry with such a prospect to take and explain to us - take them over their cash limits; this would be incompatible with our wish that they should manage their own affairs, would complicate and delay pay negotiations (which are already complex enough) and would introduce the risk of the unions thinking that we were operating some form of pay policy. Besides which the Chairmen would be rightly resentful of the interference and delays which prior notification would involve. On the other hand I think we have every reason to ask the nationalised industries to furnish us with details of pay settlements, productivity deals and productivity trends after agreements have been reached. We shall need this information to monitor each industry's success in adhering to its targets and cash limits and to enable us to seek explanations and assurances if it appears that pay settlements may lead to cash limits being breached or to performance targets not being met. This last consideration is particularly important in monopoly industries to prevent the customer being milked. I also think we need to ask the industries to let us have good warning if a pay dispute looks like escalating into major industrial action.

Special considerations apply to loss-making industries where the taxpayers' money is being used to meet the pay bill of workers who would be redundant in comparable private sector employments. Our cash limits and targets impose constraints but I think we shall need to take additional steps to ensure that money earmarked for investment is not diverted into pay packets or into bogus productivity deals. I am not in favour of our seeking to vet productivity deals proposed in these industries prior to their implementation but I think we should require the loss making industries to justify productivity deals immediately after they are made and at proper intervals thereafter.

More generally, it would be necessary to make it clear that the primary purpose of requiring information was not to absolve the industries from their management responsibilities but to bring before the industries themselves the stark facts about the implications of cash limits on any actions they proposed taking,

/as well.....



as well as enabling the Government to be aware of the need for any contingent action. Subject to that point, nationalised industries would be entirely free to discuss with Departments any pay questions before negotiations got under way or whilst they were taking place - particularly in cases where difficulties arose. It would also, in my view, be necessary to recognise that the situation in each industry varies, as indeed does the effectiveness of each industry's internal monitoring, and the precise form ^{and extent} in which information is ~~extent~~ and sought and provided will need to be determined in the light of these general principles.

With those provisos I would like to propose that, subject to any comments from the other recipients of this letter, you should take an early opportunity to write to each of the nationalised industry chairmen:

- outlining our intention to apply financial targets and cash limits to each industry (plus performance targets for monopoly industries) details of which (including assumptions about total pay costs) will be discussed with them early in autumn;
- inviting them to keep us informed of pay settlements after they are reached and to provide officials with sufficient information to ensure that the industries are taking fully into account the implications of the settlements for financial targets, cash limits and performance targets;
- inviting them to consult us in advance of pay negotiations which were likely to lead to a settlement causing financial targets or cash limits to be breached together with details of the action planned to recover the position;
- inviting them to give us clear early warning of possible industrial disputes; and
- inviting loss-making nationalised industries to provide details of productivity deals after they have been negotiated and at intervals thereafter for monitoring purposes (making it clear that, if they so wish, there is no objection to their discussing proposed productivity deals with Departments before negotiations get under way). The intensity of monitoring would be for each Department to agree with its industry and for some it may be sufficient to monitor only the general trends of productivity.

Such a letter might provide a good opportunity to draw the Chairmen's attention to Peter Rees's remarks in the House on 9

/July... ..



July about executive perks. The Prime Minister's private secretary wrote to Departments about this on 16 July, making the point that the public sector should not get out of line with the private sector in this area.

I am copying this letter to the Prime Minister, members of E Committee, to the Secretaries of State for Scotland, Northern Ireland and Wales, to the Minister of Transport and to Sir John Hunt.

*Yours sincerely,
Peter Soredden*

pp KEITH JOSEPH

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

14 AUG 1979



Nat Ind

CONFIDENTIAL

Ref. A09983

PRIME MINISTER

Pay, Prices and Efficiency in the Nationalised Industries

(E(79) 16)

BACKGROUND

This paper follows a remit from the Committee at its meeting on 2nd June. You gave the remit to the Secretary of State for Industry, but much of the work at official level has been done under Treasury auspices. The line proposed is consistent with that in the papers by the Chancellor and by the CPRS (E(79) 5 and 12) considered on 9th July. It is also consistent with the general line of Nationalised Industry Policy which is emerging in the separate discussions under Sir Keith Joseph. The Secretary of State for Industry's covering paper makes some clear recommendations, and was briefly considered at E on 9th July, but without any conclusion. The Committee then asked for some examples of how the Chancellor's 'Option A' would look in practice. Unfortunately the new paper (E(79) 23 - see separate brief) does not deal with the nationalised industries at all.

2. Given that Ministers have broadly accepted the general line on cash limits (Option A) set out by the Chancellor, they will be able to accept these recommendations in principle. But they will have understandable reservations about the effect on employment in particular areas, about essential supplies, about prices (particularly sensitive in the next year) and, on the part of the Treasury, about the PSBR implications. Ministers will therefore be justified in seeking to see how these proposals will work out in practice. You will, I think, want to commission a fairly detailed paper about this for consideration immediately after the Recess.

HANDLING

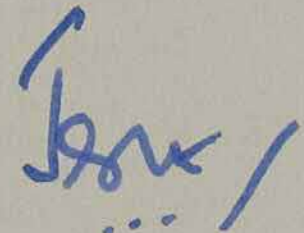
3. It follows that you may not be able to take final conclusions on this paper at the present meeting. You might therefore start by making this clear and then asking the Secretary of State for Industry to introduce his paper briefly, calling for comments from the Chancellor of the Exchequer and the Secretary of State for Employment (and, if you wish, Sir Kenneth Berrill). You might try to steer the

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Committee away from involvement in specific cases or in the detailed proposals - there is not sufficient time. The Committee might be guided to note that there is an inter-play between pay rates, prices, investment, manning, and external finance (mainly the PSBR). While the paper argues against the establishment of a uniform pay norm, it also points to the need for consistency in applying the policy it suggests. (For example, it would be wrong to impose a manpower squeeze in one loss making industry, but not in another, without adequate justification: the unions will seize on such differences). Ministers therefore need to look at the consequences of this policy as it will apply to the leading industries, and to do so comprehensively not case by case.

CONCLUSIONS

4. If this analysis is adopted, then the conclusion of this item might be: To invite the Chancellor of the Exchequer rather than the Secretary of State for Industry, this time to arrange for a further paper to be prepared, showing the consequences for each main industry in the 1979-80 pay round and the 1980-81 financial year, of the policies suggested here (taking note also of the suggestions from the Chancellor of the Exchequer and the CPRS in their earlier general papers (E(79) 5 and 6 considered on 1st June). You will also want to decide whether this new paper should be considered before or immediately after the Recess. Given the press of business there is a lot to be said for the latter if circumstances permit.


(John Hunt)

16th July, 1979

A09928

PRIME MINISTERPay, Prices and Efficiency in the National Industries(E(79) 16)

Background

1. This paper follows a remit from the Committee at its meeting on 2 June. You gave the remit to the Secretary of State for Industry, but much of the work at official level has been done under Treasury auspices. The paper is consistent with the line proposed in the papers considered under Item 1 (by the Chancellor and by the CPRS). It is also consistent with the general line of Nationalised Industry Policy which is emerging in the separate discussions under Sir Keith Joseph. His covering paper makes some clear recommendations. A lot will depend on the general attitude to cash limits which the Committee may have adopted following discussion of the Chancellor's paper E(79) 15. But they will in any case have understandable reservations about the effect on employment in particular areas, about essential supplies, about prices (particularly sensitive in the next year) and, on the part of the Treasury, about the PSBR implications. Ministers will therefore wish to consider how these proposals will work out in practice.

HANDLING

2. It follows that you may not wish to seek final conclusions on this paper at the present meeting. (I have suggested in my main brief on Item 1 you should seek to commission a further paper on the nationalised industry problem for a later meeting.) You might therefore start by making it clear that this is only a first bite. You could then ask the Secretary of State for Industry to introduce his paper briefly, calling for comments from the Chancellor of the Exchequer and the Employment Secretary (and, if you wish, Sir Kenneth Berrill). You might try to steer the Committee away from involvement in specific cases or in the detailed proposals - there is not sufficient time. The Committee might be guided to note that there is an inter-play between pay rates, prices, investment, manning, and external finance (mainly the PSBR). While the paper argues against the establishment of a uniform pay norm, it also points to the need for consistency in applying the policy it suggests. (For example, it would be wrong to impose a manpower squeeze in one loss making industry, but not in another, without adequate justification: the unions will seize on such differences). Ministers therefore need to look at the consequences of this policy as it will apply to the leading industries, and to do so comprehensively rather than case by case.

CONCLUSIONS

3. If this analysis is adopted, then the conclusion of this item might be:

- To invite the Chancellor of the Exchequer [rather than the Secretary of State for Industry, this time] to arrange for a further paper to be prepared, showing the likely consequences for each main industry in the 1970-80 pay round and the 1980-81 financial year, of the policies suggested here (taking note also of the suggestions from the Chancellor of the Exchequer and the CPRS in their papers at Item 1.) [You will also want to give guidance on whether the resulting paper should be considered before or immediately after the Recess].

J.H.
JOHN HUNT

6 July 1979

CONFIDENTIAL



MC

Neilrad

10 DOWNING STREET

From the Private Secretary

5 July 1979

Dear Andrew.

Policy to the Nationalised Industries

The Prime Minister has now had an opportunity to consider your Secretary of State's minute of 26 June on the above subject, and she is content that a formal paper for discussion at E Committee on nationalised industry policy in general should be deferred until detailed proposals have been worked out. She hopes, however, that this work can be completed in time for a fullscale discussion in October.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Secretary of State for Employment, Energy, Environment, Scotland and Trade, the Chief Secretary, the Minister of Transport and to Sir John Hunt, Sir Kenneth Berrill and Sir Lawrence Airey (Treasury).

lwr

T. L. Lawrence

Andrew Duguid, Esq.,
Department of Industry.

CONFIDENTIAL

21

CONFIDENTIAL

P.050

MR LANKESTER

cc Mr Vile

POLICY TO THE NATIONALISED INDUSTRIES

[attached]
You asked for advice on Sir Keith Joseph's minute to the Prime Minister of 26 June in which he reports a work programme remitted to officials for study and suggests that discussion in E Committee on nationalised industry policy in general should be deferred until detailed proposals have been worked out. This seems sensible because:-

(a) Although there are a number of decisions affecting nationalised industries which will have to be taken quickly - on disposals, pay, efficiency and investment - they are not dependent on the longer-term work.

(b) The programme of work for Ministerial Committees up to the summer recess is already very crowded. Finding time for a full-scale discussion which would do justice to the subject would be very difficult. As such a discussion is not operationally necessary it can perfectly well be left until, say, October.

2. Subject to the Prime Minister's view you might simply inform Sir Keith Joseph that the Prime Minister would welcome the completion of the work in time for a full-scale discussion in October.



P Le CHEMINANT

29 June 1979

1
PRIME MINISTER

In the light of this advice,
content to agree with Sir
Keith Joseph's recommendations?

MS
29/VI

Yes (as)



CONFIDENTIAL

PRIME MINISTER

POLICY TO THE NATIONALISED INDUSTRIES

As suggested in your Private Secretary's letter to my Private Secretary of 14 May, I have had a discussion with colleagues concerned with nationalised industries about the ideas we developed in Opposition towards the nationalised industries.

Subject to your view our main conclusions were:

- i) each departmental Minister should press ahead with proposals for introducing private capital where now suitable, including provisions for worker shareholdings to which we all attach importance;
- ii) in such proposals we should develop a durable framework unlikely to be met by threats of 'denationalisation without compensation'. Workers shareholdings are relevant to this and so will be a BP-type solution;
- iii) to the extent industries remain in the public sector we must increase competition wherever practicable.

There was agreement between us on our general approach, and we agreed a work programme, annexed to this letter, for a group of officials under Treasury Chairmanship.

We shall meet further to consider the reports by officials, to assess and stimulate progress towards our objectives and to correlate our action.

In view of the extent to which we agreed on the broad approach I suggest that we could defer for the present any formal paper or discussion at the Economic Committee on nationalised industry policy in general while we work out detailed proposals. I shall, however, be coming forward to the E Committee on our approach to pay, prices and efficiency in the nationalised industries with



CONFIDENTIAL

2.

particular emphasis on the pay question so that we have an opportunity to go into this fully before the next main round of wage bargains.

I am sending copies of this to the Chancellor, the Secretaries of State for Employment, Energy, Environment, Scotland and Trade, the Chief Secretary, the Minister of Transport and to Sir John Hunt, Sir Kenneth Berrill and Sir Lawrence Airey (Treasury).

KJ

K J
26 June 1979

Department of Industry
Ashdown House
123 Victoria Street
London SW1



27 JUN 1979





CONFIDENTIAL

PROPOSALS FOR FUTURE WORK ON NATIONALISED INDUSTRY MATTERS

- a) Sponsor departments to consider industry by industry possibilities for de-nationalisation, consulting the Treasury and Bank about disposals, initial balance sheet, and subsequent financial arrangements as necessary; the possibilities for making shares available to workers and producer co-operatives to be considered in each case with a view to producing a durable structure for the industry. A paper on forms of worker share-holdings.
- b) Sponsor departments to consider industry by industry the scope for de-centralisation, fragmenting monopolies, reducing monopoly, contracting work out, stimulating competition and improving service to customers.
- c) Financial targets to be set for industries which do not have them; the setting of performance aims, particularly for the monopoly industries to be speeded up and sharper arrangements for accountability for results to be examined. The possibility of making corporations or their subsidiaries subject to the threat of bankruptcy to be considered.
- d) Officials to prepare recommendations, in consultation with the industries, on accounting standards including the application of ED 24.
- e) Uneconomic activities and cross subsidisation to be identified; Ministers' decisions to be sought in forthcoming reviews of certain industries, including question of grants for uneconomic activities conducted for social reasons.
- f) Monopolies and Mergers Commission investigations of efficiency of the nationalised industries as distinct from their prices.
- g) A paper to be produced on pay, prices and efficiency questions in the nationalised industries.

MR. LANKESTER

Nat Inds.

R.

Subs to

Mr and

DOT

Sir Keith Joseph is having a meeting tomorrow, Thursday, of his group of Ministers that is looking at the nationalised industries. I gather that this is a body which officials do not normally attend.

Ken Berrill had a word with me earlier today about this and asked whether the Prime Minister would like him to attend the meeting, in order to keep an eye on her interest in the subject.

I raised this with the Prime Minister this evening and she said that she would like Ken Berrill to be present, provided Sir Keith Joseph was content. Could you please have a word therefore with Andrew Duguid and, if he sees no objection, then let Ken Berrill know that the Prime Minister would like him to attend the meeting.

Muri

20 June 1979



Secretary of State for Industry

Nat Ind

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Audrey Mason
Private Secretary to the
Secretary of State for the Environment
2 Marsham Street
London SW1 3EB

24 May 1979

Dear Audrey

R 29/5

NATIONALISED INDUSTRY POLICY

Further to my Secretary of State's letter to the Chancellor of the Exchequer of 23 May, the meeting referred to has been arranged for Thursday 21 June at 3.45 pm at the Department of Industry, Room 11.01 Ashdown House, 123 Victoria Street, London SW1.

In addition to your Secretary of State, the Secretaries of State for Energy, Trade and Scotland, the Chief Secretary and Minister of Transport have been invited to attend. Officials are not required to be present and it is estimated that the meeting will last 1½ hours.

I am copying this to the Private Secretaries to those attending, Tim Lankester (No.10) and Martin Vile.

Yours sincerely

Bernard Dodwell

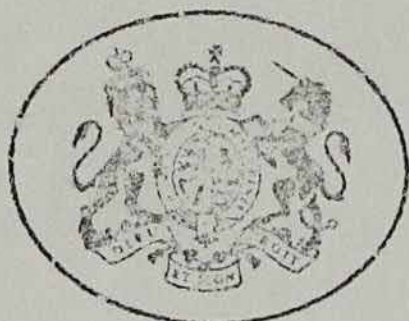
B C DODWELL
Private Secretary

29 MAY 1979



CONFIDENTIAL

Nat Ind.



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

23 May 1979

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

R 2575

Dear Geoffrey.

NATIONALISED INDUSTRY POLICY

Thank you for your letters of 10 and 15 May. In accordance with the Prime Minister's decision conveyed in her Private Secretary's letter of 14 May, I think, to start with, it would be desirable for me to discuss our ideas with colleagues responsible for the major nationalised industries and John Biffen, and subsequently bring a revised paper to Economic Strategy Committee.

I agree with you that there are major questions of principle and practice involved and these will need careful evaluation. As you say, the characters of the industries also vary widely. I think we need a preliminary collective discussion as soon as possible to give officials early guidance for the preparatory work they will need to undertake. I think too it would be helpful if our officials prepared a paper which identified the main issues which we would consider at our meeting.

My private office will be getting in touch with those of our colleagues concerned to arrange a time.

I am copying this letter to the Prime Minister, David Howell, Michael Heseltine, George Younger, John Biffen, John Nott and Norman Fowler, and to Sir John Hunt.

Caron

Kear

24 MAY 1979





Nat Prod

From the Secretary of State

Rt Hon Sir Keith Joseph MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON SW1

R
MS

22 May 1979

Dear Keith.

NATIONALISED INDUSTRY POLICY

I have followed your correspondence with Geoffrey Howe on this subject and now seen his letter of 15 May suggesting that a substantive note should first be produced by officials which can act as a focal point for further discussion between sponsoring Ministers. I think this would be a sensible approach for the reasons given in Geoffrey's letter. If it is agreed we should proceed in this way, Department of Trade officials will be ready to take part. I have a number of points myself which I shall be discussing with my own officials but, in broad terms, I am reluctant to push ahead too swiftly in this area as it is better that we gain some experience of our own industries before trying to frame a new policy.

I am copying this letter to the Prime Minister and other recipients of the Chancellor's letter of 15 May.

Yours ever
John

JOHN NOTT

11 12 1
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8 9 10

22 MAY 1979

CONFIDENTIAL

Nat Inds



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

15 May, 1979

MBam
15/5

J. Hunt

NATIONALISED INDUSTRIES POLICY

Some further reflections on your letter of 9th May, and on the policy paper you enclosed based on the work of Nick Ridley's group.

I share your view that the topic should be discussed in the Economic Strategy Committee and that the paper provides the right starting point. I think, however, we could probably have a more constructive discussion when you and other sponsor Ministers have had time to settle in, and get the feel of your industries. A substantive note prepared by officials interdepartmentally, commenting on the various proposals in your paper, would help to focus our minds.

As you know, I agree that there is obviously much sound sense in the objectives your paper sets for our relationship with the industries; but it does pose major questions of principle and practice for both the financial and the organisational framework of that relationship, some of which would entail legislation. We have to consider how far the intrinsically varied character of the industries is compatible with a uniform financial regime - or unified legislative treatment. Clearly the greater the unity the better.

I am copying this letter to the Prime Minister and other recipients of yours; also to George Younger, Michael Heseltine, and Sir John Hunt.

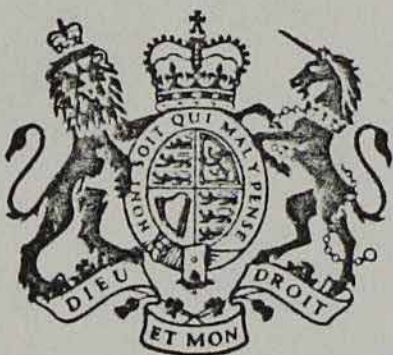
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(GEOFFREY HOWE)

The Rt. Hon. Sir Keith Joseph, M.P.

15 MAY 1979





10 DOWNING STREET

From the Private Secretary

14 May 1979

NATIONALISED INDUSTRY POLICY

The Prime Minister has seen your Secretary of State's letter of 9 May to the Chancellor of the Exchequer with which he enclosed a note on the nationalised industries. She has also seen the Chancellor's reply of 10 May.

The Prime Minister has commented that there is clearly a great deal more work to be done before the paper on the issues covered in Sir Keith Joseph's note can come to the Ministerial Committee on Economic Strategy. She suggests that Sir Keith might in the first instance discuss his ideas with the Ministers now responsible for the major nationalised industries and the Chief Secretary. Having worked out his ideas further with colleagues, he might then bring a revised paper before the Committee.

I am sending a copy of this letter to Tom Harris (Department of Trade), Bill Burroughs (Department of Energy), Genie Flanagan (Department of Transport), Tony Battishill (H.M. Treasury) and Martin Vile (Cabinet Office).

T. P. LANKESTER

Andrew Duguid, Esq.,
Department of Industry.

[Handwritten signature]

Ref. A09545

MR LANKESTER

Prime Minister

Do you agree x?
(The Chancellor - Flag B -
appears content with
Sir Keith Joseph's general
approach).

NATIONALISED INDUSTRY POLICY

12

115

Flag A

The Prime Minister will have seen a copy of Sir Keith Joseph's letter to Sir Geoffrey Howe of 9 May about nationalised industry policy. The paper which this covers was written by Sir Keith when the party was still in opposition, and is itself a summary of a much longer report produced by a committee under Mr Nicholas Ridley. As Sir Keith Joseph recognises in his letter the paper in its present form is not particularly well suited to Ministerial discussion and, indeed, he talks of preparing a further paper based upon it. The Governments relationships with the nationalised industries involve a jungle of complex issues ranging from questions of the inadequacy of Government (which are the Prime Ministers prerogative) though the detail of Departmental and Treasury financial control, to questions of law. Successive ~~Governments~~ have conducted reviews which have usually ground to a halt. Sir Keith Joseph has a new and fresh approach which may have much to commend it. Before any official work is done to fill it out I think the Prime Minister might suggest to Sir Keith Joseph that in the first instance he should discuss his ideas with the Ministers now responsible for the major nationalised industries who will all be affected and have interests in building on the work done in opposition and, of course, the Chief Secretary, Treasury. Having done so, he could then bring a revised paper before the Economic Strategy Committee following which officials could be given instructions.

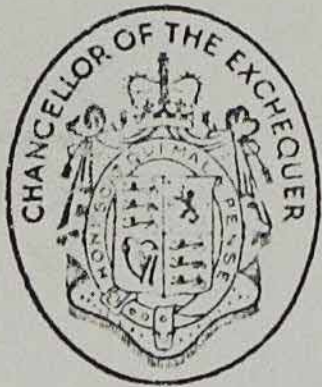
X

[Handwritten signature]

JOHN HUNT

11 May 1979

Agreed. There
is a lot more work
to be done before a
paper can come to
the Street. However, that
please ask K.S. to go
ahead with his
ideas with colleagues. etc.



Return to R.
4/5 p.m.

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

10 May, 1979

MBM

Dear Keith

R.
11/5

NATIONALISED INDUSTRIES

Thank you for your letter of 9th May. I agree with the approach you suggest.

Have you forgotten Nick Ridley's later "blue form" report? Should that not also be included in the same exercise?

I am copying this letter to the recipients of yours.

(GEOFFREY HOWE)

The Rt. Hon. Sir Keith Joseph, M.P.

11 MAY 1979





Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

9 May 1979

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

Dear Geoffrey.

As you will remember, much work was done by a policy group chaired by Nicholas Ridley on policy towards the nationalised industries. The final report was broadly agreed by the Steering Committee.

... I drew together in Opposition the themes of that report, which are set out in the attached draft note dated 6 April 1979.

? I am writing to suggest that our approach to nationalised industries should be on the agenda of your Economic Strategy Committee and that the attached draft note might be the basis of a paper for consideration. Obviously colleagues will wish to consider with Legislation Committee the form of any legislation that might be necessary.

I hope that arising from the discussion a small staff might be allocated to providing the necessary coordination and background work so that our approach to nationalised industries can follow unified thinking, even if the degree to which we can apply that thinking will vary from case to case.

I am copying this letter to the Prime Minister and the Secretaries of State for Trade, Energy and Transport.

Lawson

Kerr

THE NATIONALISED INDUSTRIES

Notes for Ministers

Nationalised Industry Policy

Main Aim: better service to the customer: better motivation for the manager and the worker: more cost-effectiveness: reduce nationalisation.

First: to set up and maintain a financial control and monitoring system which put some pressure upon them to improve their efficiency.

Secondly: strengthen motivation to serve the customer by increasing competition where possible, and paying top management well. Encourage boards to set up as many subsidiary profit centres as possible, and split even main functions down into regions or plants. A great deal of work can be contracted out.

Thirdly: give workers and investors the chance to own shares in state industry. If workers can earn shares in the corporation for which they work, or better still take control of the subsidiary in which they work, we will spread property and incentive widely, as well as increasing efficiency. Selling Nationalised Industry shares will produce revenue for the Chancellor as well as spreading the ownership more widely.

A. Treasury:

1. A Treasury Minister should be charged with the supervision of all responsibilities for NIs within the Treasury.
2. There should be a group of officials charged with valuing industrial assets, setting targets, monitoring performance, considering options for the fulfilment of the purposes described below, and helping Ministers and Departments to achieve them.
3. Take each NI in turn and negotiate with it a balance sheet, based on asset values, involving - as necessary - writing up or writing down of capital. Give each industry a share capital, with a large number of shares, and also loans as appropriate, bearing in mind a reasonable gearing; the total to represent its surplus of assets over liabilities.
4. Set targets for the industries, either individually or, preferably, overall. This could be expressed as a rate of interest on loans and a dividend on capital.

5. Set up a small Committee of Auditors under the chairmanship of the C & AG to work out accounting practices and standards for all NIs. These standards should include adequate disclosure of subsidiaries accounts and of any subsidisation.
6. Ensure that the Treasury unit monitors the financial performance of each industry against targets on a regular basis, and sets up a good system for doing so.
7. Decide, at time of budget preparation each year, how much money is required to be raised by sales of nationalised industry shares to the public, in consultation with sponsoring Ministers.

B. Leader of the House:

1. Bill to be prepared to permit:-
 - (a) the reduction of the monopolies in telephone equipment supply, North Sea gas supply and electricity sales;
 - (b) each industry to be given a share capital in accordance with A.1. above;
 - (c) the sale or even gift of assets of NIs as required;

B.1. continued

- (d) the splitting, if so decided, of the Post Office into Post and Telecommunications, as recommended by the Carter Committee.
- 2. Arrange that a Select Committee of the House can supervise the performance of the NIs and receive the C & AG's report.
- 3. A Bill to unscramble road traffic licencing for other than safety purposes is important.

C. Sponsoring Ministers - Industry, Transport, Trade, Energy:

- 1. Sell any industries or parts of industries or shares of industries, as in BP, immediately saleable.
- 2. Select appropriate chairmen, where a change is desirable.
- 3. Encourage chairmen to improve motivation and service to the public by organising part or parts or even all their industry into separate profit centres or subsidiaries or, perhaps, in suitable cases, producer/co-operatives - and to accept, when suitable, private shareholders, including workers as discussed in the attached "Blue Form" paper. Also see attached EMI producer/co-operative paper.

4. Identify areas of uneconomic working and ask each chairman to negotiate the cost on departmental votes of continuing them. Colleagues can then decide which activities to end, which to continue and which to modify.
5. Transfer responsibility for the economic performance of each industry to the Treasury and re-deploy surplus sponsoring officials. This must be done to achieve an "arm's length" relationship.
6. Stick rigidly to rules, whereby PQs dealing with day-to-day affairs on NIs are not answered.
7. Check that there is power to investigate and restrain excessive prices charged by NIs when they are monopolies.

KJ/SMC
6.4.79.



F-8 MAY 1979

