PREM 19/849

PART 5 ends:-

3.2.82

PART 6 begins:-

5.2.82

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E (81) 92	21. 9. 81
E (81) 29th Mtg Min 2	23. 9. 81
E (NI) (81) 2	26. 10 81
E (NI) (81) 3	26. 10. 81
E (NI) (81) 4	28. 10. 81
E (NI) (81) 5	2. 11. 81
E (NI) (81) 1st Mtg	2. 11. 81
E (NI) (81) 6	5. 11. 81
E (NI) (81) 8	13. 11. 81
~~E (NI) (81)~~	
E (NI) (81) 9	17. 11. 81
E (NI) (81) 7	17. 11. 81
E (NI) (81) 2nd Mtg	19. 11. 81
E (NI) (81) 3rd Mtg Min 2	3. 12. 81
E (NI) (81) 3rd Mtg Min 3	3. 12. 81
E (NI) (82) 1	22. 1. 82
E (NI) (82) 4	1. 2. 82

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed R Pormar Date 25 Oct 12

PREM Records Team

CONFIDENTIAL

bc A Duguid

Nationalised Industries

10 DOWNING STREET

c. DOE
SO
D/IND
D/TRADE
D/TRANSPORT
CS, HMT
D/N
D/M

From the Private Secretary

3 February 1982

Nationalised Industry Objectives

The Prime Minister has been following the correspondence between the Department of Energy, CPRS and the Treasury about draft nationalised industry objectives for the NCB, ESI and BGC.

The Prime Minister has asked me to remind Departments of E(NI)'s remit on 2 November to sponsor Ministers to submit draft objectives for nationalised industries to the Committee. The Prime Minister would be grateful if this was done before the end of February.

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

MCS

John Kerr, Esq.,
H.M. Treasury.

CONFIDENTIAL

CONFIDENTIAL

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

3 February 1982

Michael Scholar Esq.
10 Downing Street
LONDON
SW1

Dear Michael,

NATIONALISED INDUSTRIES: FOLLOW-UP TO CPRS REPORT

You will recall that the Chancellor sent the Prime Minister on 25th January a revised version of the document outlining the Government's proposals. This followed a meeting with the nationalised industry chairmen after which there was some discussion between Sir Robert Marshall and officials.

Some further amendments have now been suggested by Mr Ibbs and agreed in discussion with him and the NICG and I enclose a copy of the final version. The changes are largely of nuance and the Chancellor believes that the document correctly reflects the decisions Ministers have taken, but in language which is acceptable to the chairmen. The document remains, however, a statement of the Government's intentions; it is not an agreement negotiated with the chairmen.

The Prime Minister and members of E(NI) may also wish to see the letter which Sir Robert Marshall sent the Chancellor recording their reactions to the document. A copy is attached.

Subject to the Prime Minister's views, the way is now clear for bilateral discussions between sponsor Ministers and Departments and the industries to start, with a view to implementing the proposals as soon as possible.

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

Yours ever
Peter

P.S. JENKINS
Private Secretary

tionalised Industries' Chairmen's Group

Sir Robert Marshall KCB, MBE †

PO Box 403
33 Grosvenor Place
London SW1X 7JG

01-235 1212

12/1/1.
N114

20 January 1982

The Rt Hon Geoffrey Howe QC MP
Chancellor of the Exchequer
The Treasury
Parliament Street
London SW1

Dear Geoffrey

Government-NI Relations

When some of us discussed with you on 16th December the paper you had sent us on this subject based on the CPRS study we were much encouraged by the open and thoughtful discussion and the measure of agreement which seemed to emerge. We had been perturbed to say the least of it by some of the detailed proposals in the memorandum which did not appear to us to be compatible with the efficient conduct of our businesses within our overriding statutory obligations. The discussion left us re-assured to a considerable extent about your intentions.

You kindly agreed that we should have a shot at amending the document to accord with the way in which the discussion had developed and I sent Bill Ryrie at the end of last week our suggestions on this. We have been at very great pains not to go beyond what we thought emerged from the discussion between you and your colleagues and not to break the form or blur the principle objectives in your document. I hope you will find the result acceptable.

When you saw us before Christmas we had had written comments from a number of our colleagues but not a full discussion of your document. Earlier this month Chairmen met in Council and discussed your proposals in detail after hearing how the discussions with you had gone. Discussion concentrated very much on the same points as we highlighted in our talk with you and extreme disquiet was expressed about the detailed proposals though not in general about the broad objectives. I think it is important for you and your colleagues to understand that this disquiet was utterly genuine and in no sense parochial or personal. We were concerned about the consequences for the efficiency of the corporations if your detailed proposals were adopted.

Chairmen felt so strongly about this that they asked me to write to you to highlight again the main points of their concern which are briefly:-

Basis of Government-NI Relations. Reference to the development of a partnership between Government and the Boards based on agreed and clearly stated long-term

† Correspondence directed particularly to the Chairman of the Group should be sent to:
National Water Council, 1 Queen Anne's Gate, London SW1H 9BT

objectives is entirely welcome. But the discussion emphasised particularly strongly the fact that the powers and duties of the Boards were laid down in the Statutes as are those of Ministers and new arrangements had to be consonant with these underlying statutory obligations. Two current legal cases - the GLC fares scheme and the airlines' case against the Department of Trade and the BAA - underline the point.

Role of the Non-Executive Members. Chairmen attach great importance to the contribution of their non-executive Members and are only too ready to consider further ways of enhancing their role. What alarmed us in the original document was the apparent failure to appreciate the crucial importance of ensuring that Boards operate as corporate entities; the Board as a whole carrying collective responsibility for the conduct of the business. We should not be willing to compromise on that.

The Diversity of the Corporation. The document drew attention early on to the diversity of the corporations but this important fact did not seem to read through in the detailed proposals. I can well understand that this may have been a matter of simplicity in drafting but we wish to emphasise how important this diversity is in all sorts of ways including things you discuss such as the need for reference to the Monopolies and Mergers Commission and the size and composition of Boards.

Greater Business Understanding in Whitehall. Chairmen are entirely with you in wishing to improve understanding in Government of the industrial and commercial situations of the corporations but we urge you to think most carefully about how this can best be done without, as you yourself say, interfering with what is properly the business of the Boards and diverting yet further effort and time from managing the business to answering questions. We should hope that you would concentrate on increasing understanding and knowledge primarily in the sponsor departments and that you would go for quality rather than numbers. These are matters for your decision but they affect us crucially and can be detrimental to the efficiency which you are eager to promote.

I think you and your colleagues acknowledge that these are genuinely important points. If you are able to accept the amendments proposed to your document that would help to get discussions off on the right footing. The crucial test would be how relations then develop.

Yours ever

Bob Armstrong

Changes from original version indicated by underlining

THE RELATIONSHIP BETWEEN THE GOVERNMENT AND THE NATIONALISED INDUSTRIES

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

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

Basic relationship

3. Clearly a better relationship between Government and the industries will not in itself solve all problems or remove all risk of a conflict of interests. However, an improved relationship would greatly increase the chances of dealing with difficulties more effectively. There is much to be gained from a better unity of purpose. What is required is a relationship whereby the industries move in an overall direction agreed by Government after full consultation with the Boards, in an environment where there are effective surrogates to replace market disciplines where these are missing, so that direct intervention by Government becomes minimal and the responsibilities of the Boards under statute are not infringed.

?

Clarity of objectives

!! – See the last sentence of the last para!!

4. A satisfactory relationship between Government and the

industries requires that there should be clarity of objectives. Policy towards the industries needs to look well ahead. The Government therefore intends that Ministers should agree long-term objectives with the Chairmen and the Boards. Such objectives would be mostly qualitative, indicating desired trends. Corporate Plans and Annual Budgets will fill in the detailed figures. These objectives should be consistent with the statutory duties of the Boards and with any financial targets and performance aims.

5. Such a set of objectives should remain reasonably resilient over a number of years and would form the basis of the partnership between the Secretary of State on the one hand and the Chairmen and the Boards on the other. Obviously they would not remain totally immutable in a changing environment and would sometimes need updating. If either the industry or the Government wished to change the objectives, then further consultation would be necessary. This would serve to make explicit the consequences of a change in direction. Effectiveness in relation to the objectives will provide a basis for judging management performance.

Greater business understanding in Whitehall

First two sentences deleted.

6 ~~8~~. The Government, acting on behalf of the nation, which is the owner, must be able to assess performance and ensure that any serious deficiencies are corrected. While not attempting to interfere in the conduct or management of the businesses, the Government must be able to understand them if it is to be effective in this role. Ministers have accepted the CPRS view that greater business understanding is needed in Whitehall

Do we not now??

- to arrive at workable objectives agreed with the industries;

- to see that these objectives are properly translated into quantified targets, and assess performance against these targets;

- to appreciate the business implications of other decisions affecting the industries;

- to ensure that the commercial needs of the industries are properly understood and taken into account by Government.

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

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

(i) A regular and systematic programme for comprehensive annaul assessment of each major industry. This would be centred on the industry's Corporate Plan, andwould look at the commercial performance of each industry including its achievements against agreed targets, its main forward plans, and trends in pay, pricing and productivity. The sponsor Department and its Secretary of State would be in the lead, but would report to Minsiters collectively on the industry's performance and prospects, and on any strategic options needing collective consideration. This would lead into the IFR and thereafter to the autumn settlements of EFLs, and the aim would therefore be to carry out these reviews so far as possible by May of each year.

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

(iii) Greater understanding of industries' investment

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

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

In other words to contain the requests for more money

Better self-regulation of nationalised industries

8. The absence of any real threat of bankruptcy and the relative weakness of market forces in some, though not all, nationalised industries is a factor that must be recognised; it imposes a duty on the Government to ensure on behalf of the nation that the industries are efficient. Monopolies and Mergers Commission (MMC) references are the Government's principal instrument for securing an external public audit of industries' efficiency. Alternatively, enquiries by consultants may in some instances be appropriate. Following its undertaking in response to the PAC (Cmnd 8323), the Government proposes to announce very shortly an extended programme of MMC references, on the lines described in the Annex.

9. However, the principal pressure towards increasing efficiency must come from within the industries. The Government will therefore

wish to be satisfied that each Board has effective systems for reviewing all aspects of efficiency and that the necessary follow-up action is taken when scope for improvement is found.

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

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

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

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

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

(iii) to identify and draw to the attention of the Board any matter requiring special efficiency inquiries and to ensure that external efficiency audits, whether undertaken by the MMC or any otherbody, are followed up.

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

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

11. Secretaries of State propose to discuss with Chairmen the constitution of their Boards. In these discussions, full account will be taken of the particular circumstances of each corporation, including statutory requirements. However in the Government's view there should generally be a majority of non-executive directors. It is also essential that they should have appropriate business and other experience and be of the right calibre. This would enable them to exercise a major influence on the work of the boards so to reassure public opinion that the boards are effective self-regulating bodies despite some lack of market forces. Ministers also see a strong case for smaller boards wherever possible less than 12: the larger the board the less the opportunity for constructive discussion by all members and the more key decision-making is likely to devolve to smaller groups.

Other proposals

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

13. Because many of the industries are very large, encompassing a variety of different activities, the Government would like in general to see parts of the industries designated as cost or profit centres, and producing management accounts which allow their success in these connections to be assessed. Only the Board has the detailed knowledge to assess what sub-division makes sense for each industry. But the Government believes that the potential benefit of individual

cost or profit centres for policy making could be considerable, for example, to expose the extent of cross-subsidisation. Furthermore, sub-division of some, though not necessarily all, industries should make them more easily manageable and thus bring efficiency gains.

Conclusion

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

Nat Fed
Policing

With the Compliments

of the

Secretary of State

Scottish Office,
Dover House,
Whitehall,
London, S.W.1 A 2AU

Prime Minister

(2)

SCOTTISH OFFICE MCS 1/2
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Baroness Young
Chancellor of the Duchy of Lancaster
Management and Personnel Office
Whitehall
LONDON
SW1A 2AZ

1 February 1982

Dear Janet,

CPRS REPORT ON THE NATIONALISED INDUSTRIES
PROPOSALS FOR SPONSOR DEPARTMENTS

At the meeting of E(NI) on 3 December 1981 it was agreed that sponsoring Ministers should write to you to advise whether they would welcome Rayner scrutinies in their Departments, on the lines set out in your minute of 2 December 1981 to the Prime Minister, and to indicate whether they would welcome further advice by the Management and Personnel Office.

The Scottish Office is the sponsoring Department for three nationalised industries - the North of Scotland Hydro-Electric Board, the South of Scotland Electricity Board and the Scottish Transport Group. As I explained in my minute of 18 September 1981 to the Prime Minister I regard each of these as being in the category of small nationalised industries which were not explicitly considered by the CPRS study, and relations between these industries and the Scottish Office appear to be somewhat more harmonious than in the case of the larger industries. My proposals for building up our expertise in dealing with these nationalised industries, which included drawing upon the more specialised expertise introduced into the relevant parts of the Department of Energy and the Department of Transport, were accepted by the CPRS as being probably sufficient (E(NI)(81)7 refers). The Secretary of State for Energy is already considering the possibility of a scrutiny covering his Department's relations with the Electricity Supply Industry in England and Wales and I consider that my main interest as a sponsoring Minister would be covered by that scrutiny. I do not at this stage therefore wish to press for a formal study of the sponsoring divisions in the Scottish Office, but I shall study with interest the outcome of any studies which colleagues instigate. I do not for the moment envisage seeking further advice from the Manpower and Personnel Office but I shall, of course, keep this possibility under review.

I am copying this letter to the recipients of your minute of 2 December 1981.

Yours ever,

George

CONFIDENTIAL

cc JV
AD

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000 1 February 1982

(1)

Prime Minister

E(NI) agreed on 2 November that draft Nationalised Industry objectives should be circulated before Christmas. As you will see, progress has been slow. Robin Ibbs suggests I write round asking for the remaining objectives to be circulated before end February. Agree I do so?

MCS 2/2

Yes MT

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON SW1P 4QJ

Dear Nigel

NATIONALISED INDUSTRY OBJECTIVES

Robin Ibbs has sent me a copy of his letter of 22 January to you about draft objectives for the NCB, ESI and BGC prepared by your Department.

I must say that I generally share his reaction to the present drafts. The aim of having objectives was to provide an agreed and lasting basis for Government/industry relations; as a framework to guide successive Corporate Plans; and as a measure for judging the success of management. To serve these purposes the statement of objectives needs to tackle and resolve long-term issues about the purpose and shape of the industries, some of which will be contentious. If we are to use the objectives as the basis of a better relationship with the industries they will have to address these difficult issues despite the temptation to defer them until later.

I appreciate that there are special circumstances in the NCB and CEGB when new Chairmen are to be appointed during the year; and for BGC where important legislative changes are under way. This may affect how far we can go in getting agreement with the industries in the short term. But it should not prevent us from clarifying our own thoughts. We shall in any case need to be in a position to brief an incoming Chairman clearly on many of these matters.

I do not want to comment in detail on the questions suggested by Robin Ibbs about particular industries. Generally they seem to me to raise important and relevant issues. Indeed one additional question which could usefully be added is about the role of private capital in both the NCB and ESI. This is a question for the longer term but in this context one that is worth thinking about now.

/I am copying

CONFIDENTIAL

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

GEOFFREY HOWE

E(NI)

HMT
DE
SO
DI
DTde
DTrans
DEngy

DEmp
CS-HMT

Nat Ind Policy

Jul

bc, Vereker
Duguid

10 DOWNING STREET

1 February 1982

MONOPOLIES AND MERGERS COMMISSION: FORWARD PROGRAMME OF NATIONALISED INDUSTRY REFERENCES

The Prime Minister saw over the weekend the Chief Secretary's note of 22 January to which was attached a report by the Chairman of the Official Committee on Nationalised Industry Policy (E(NI) (82)(1)).

She has commented that she thinks it is the CEGB which really needs investigation (Annex A shows this in the programme for March 1985).

I am sending a copy of this letter to the private secretaries to the other members of E(NI).

M. C. SCHOLAR

[illegible], Esq.,

SR

CONFIDENTIAL

cc JU
AD

4 pps

Caxton House Tothill Street London SW1H 9NA
Telephone Direct Line 01-213 6400
Switchboard 01-213 3000

GTN 213

Rt Hon Nigel Lawson MP
Secretary of State
Department of Energy
Thames House South
Millbank
LONDON SW1

29 January 1982

Dear Nigel.

NATIONALISED INDUSTRY OBJECTIVES

I have seen a copy of your Private Secretary's letter of 23 December enclosing draft objectives for those nationalised industries which your Department sponsors. Before we meet in E(NI) to review the question of objectives for all nationalised industries it may be useful if I set down three points I think that all the drafts should reflect.

First, I believe that all objectives should deal with the question of industrial relations (IR). I understand that IR are specifically mentioned in the enabling statutes of most nationalised industries, and we have agreed that the industries should encourage the development of employee involvement. I suggest that something on the following lines should be included in all objectives:

> "To maintain proper machinery for the conduct of good industrial relations; and to develop and improve arrangements for involving employees and their representatives in policies and decisions which effect their working lives through the provision of relevant information and arrangements for consultation."

Secondly, I doubt whether a requirement to provide "adequate" training (BGC's ninth objective and NCB's fifth) can be reconciled with the objectives of the New Training Initiative which contemplate, for example, wholesale reform of our present skilled training arrangements. In fact, I am not at all sure that any general objective on this subject can be expected to offer management much useful guidance. And if an objective is too tightly drawn, they might argue that it precluded them from taking part in a training scheme which produced wider community benefits. However, if my colleagues would like to see an objective on this subject, I should prefer it to be rather firmer in time, perhaps in these terms:

> "To see that all employees receive training which is necessary to enable them to contribute fully to the efficient operation of the undertaking".

Thirdly, I was very glad to see the unequivocal reference to privatisation in BGC's seventh objective. I am sure that something on these lines should figure in the objectives for any industry where there is any prospect of progress on this front in the foreseeable future.

On a more general point, I am concerned that we should not lose sight of what should be one of the main aims of this exercise, that of controlling unit labour costs in the nationalised industries. The broad objectives in the present drafts provide adequately for this in their reference to costs, but what matters more is how that is developed in the detailed performance aims which are to be set for each industry. We need to ensure that these cover, among other things, measurable and regularly-monitored performance indicators on unit labour costs. While some progress has been made on the preparation of performance aims, much remains to be done and I hope we can agree that work should proceed as quickly as possible.

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

Norman

Notified Mrs

CS AO

CONFIDENTIAL

Qa 05789

26 January 1982

Agreed with Mr Ibbs not to submit this paper MCS 5/2

Note Robin Ibbs and Treasury phoned; now overtaken by events. Amat revised note from Treasury

MCS.

To: PRIME MINISTER

From: J R IBBS

Nationalised Industries: Follow-up to the CPRS Report

1. The Chancellor's minute of 25 January asks colleagues in E(NI) to agree to a revised version of the document approved by the Committee on 19 November, as a basis for consulting individual Chairmen on the Government's proposals stemming from the CPRS Report.

2. The CPRS was not consulted on the changes in the document, or associated with the further discussions with Sir Robert Marshall following the Chancellor's meeting. Hence I am at some disadvantage in assessing just how these changes were arrived at. Some flexibility on points raised by the Chairmen is appropriate. But I have to say that in my view the changes move some way from what the CPRS recommended and E(NI) agreed. They appear to represent significant weakening right at the start of the new approach to the industries that the Government was seeking. I am mainly concerned about the following points:-

(i) Paragraph 4 now says that the Government's objectives for the industries "should proceed from and reflect the statutory duties of the Boards". This seems to me to go too far. Clearly, as the Chancellor says, the Chairmen want to emphasise their statutory position. But if the setting of objectives by Government is to be meaningful, it cannot start from the statutes, but from what Ministers want from the industries. If this were to conflict with the statutes, Ministers would have to consider whether to amend the statute by legislation or to modify their objective. But in general the statutes leave many key issues open. In my view this sentence need say no more than that the objectives "would need to be consistent with the statutory duties of the Boards, and linked to financial targets and performance aims".

(ii) Paragraph 6 goes even further in saying that the Government "will not attempt to direct the businesses". This would appear to renounce the Government's statutory powers to issue general directions, and in some cases specific directions. More broadly, it seems to give up any idea of strategic direction, whether in the setting of objectives or in the corporate plan reviews which the Chancellor has himself proposed.

(iii) In paragraphs 4 and 5, the Secretary of State is to deal with the whole Board, not the Chairman. In practical terms this seems to me unrealistic. For example in settling the objectives for the industry the sponsoring Ministers would need to discuss these with the Chairman, who would then no doubt talk to his Board. If Ministers were appointing a new Chairman with the job of changing the direction of an industry, the distinction would be crucial. As the draft is now, I suggest re-inserting the Chairmen to make the second sentence of paragraph 4 read: "The Government therefore intends that Ministers should agree long-term objectives with the Chairmen and the Boards".

3. There are one or two other changes which I would want to question - for example the blurring of the involvement of non executive Directors in specific tasks relating to efficiency. But the three points above show my main concerns. If you and other Ministers share these concerns, they may wish to discuss the position at E(NI) Committee on 3 February.

4. I am sending a copy of this minute to other members of E(NI), and to Sir Robert Armstrong.

CONFIDENTIAL

cc JCW
AD

Note/ overtaken by events.
MLS.

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

PRIME MINISTER

NATIONALISED INDUSTRIES: FOLLOW-UP TO CPRS REPORT

At the meeting of E(NI) on 3 December we agreed on a document outlining our proposals to be sent to the chairmen of the nationalised industries. I held a meeting with the main sponsor Ministers and a group of chairmen to discuss them shortly before Christmas.

2. The chairmen were concerned to stress the importance of the statutes under which they operate and the need for any new requirement to be compatible with them. Given goodwill I do not see that this need cause any real difficulty.

3. For the rest, they were mainly concerned about two points. First, they supported the idea of enhancing the role of non-executive directors and making better use of them, but argued strongly that this should not be done in such a way as to undermine the unity of their Boards, which, they correctly argued, were collectively responsible for the running of the industries. In particular, they argued that it should not be for Secretaries of State to assign duties to non-executive directors nor would it be proper for Secretaries of State to summon chairmen and non-executive directors to meetings with them separately from other members of the Board. We were able to set their fears at rest by explaining that it had never been the intention to propose arrangements which would divide the Board or which would mean that Secretaries of State would intervene in matters which were properly the responsibility of Boards.

4. Secondly, they expressed considerable reservations about the proposal to regularise and in some ways increase the flow of information to sponsor Departments and fears that the strengthening of capacity in sponsor Departments to understand the industries as businesses would, in practice, mean more interference. But they were willing to proceed to discussion of the details of these proposals with sponsor Ministers and Departments.

5. Before doing so, however, they asked for another opportunity to discuss the document amongst themselves - not all of them having been present at our meeting. As a result of that meeting, Sir Robert Marshall has asked us to accept a number of changes to the text of the document containing the Government's proposals. That document would then be the basis for discussions between the industries and sponsor Ministers and Departments. Tiresome as this is, I think there is some advantage in accepting this proposal because the chairmen will then be committed to the document as a basis for discussion and we may make better progress.

.... 6. The attached version of the document indicates the changes which the nationalised industries chairmen have proposed and which have been discussed briefly with them by my officials. I believe the changes are in part innocuous and in part reflect the agreement we reached in our discussion with the chairmen at the meeting before Christmas. I hope you and other colleagues on E(NI) can accept it as a basis for proceeding. Bilateral discussion can then get going with a view to getting all the new arrangements into force before the end of the current financial year.

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

(G.H.)

25 January 1982

THE RELATIONSHIP BETWEEN THE GOVERNMENT AND THE NATIONALISED INDUSTRIES

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

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

Basic Relationship

3. Clearly a better relationship between Government and the industries will not in itself solve all problems or remove all risk of a conflict of interests. However, an improved relationship would greatly increase the chances of dealing with difficulties more effectively. There is much to be gained from a better unity of purpose. What is required is a relationship whereby the industries move in an overall direction agreed by Government in consultation with the Boards, in an environment where there are effective surrogates to replace market disciplines where these are missing, so that direct intervention by Government becomes minimal and the responsibilities of the Boards under statute are not infringed.

Clarity of Objectives

4. A satisfactory relationship between Government and the industries requires that there should be clarity of objectives. Policy towards the industries needs to look well ahead. The Government therefore intends that Ministers should agree long-term objectives with the Boards. Such objectives would be mostly qualitative, indicating desired trends; Corporate Plans and Annual Budgets will fill in the detailed figures. These objectives should proceed from and reflect the statutory duties of the Boards and would need to be consistent with any financial targets and performance aims.

5. Such a set of objectives should remain reasonably resilient over a number of years and would form the basis of the partnership between the Secretary of State and the Board. Obviously they would not remain totally immutable in a changing environment and would sometimes need updating. If either the industry or the Government wished to change the objectives, then further consultation would be necessary. This would serve to make explicit the consequences of a change in direction. Effectiveness in relation to the objectives will provide a basis for judging management performance.

Greater Business Understanding in Whitehall

6. The environment in which some, though not all, of the industries operate lack the full competitive discipline that puts great pressure on most private sector companies, and some receive grants and subsidies. For reasons of both kinds, the industries cannot be entirely left to regulate themselves. The Government, acting on behalf of the nation, which is the owner, must be able to assess performance and ensure that any serious deficiencies are corrected. While not attempting to direct or manage the businesses, the Government must be able to understand them if it is to be effective in this role. Ministers have accepted the CPRS view that greater business understanding is needed in Whitehall

- to arrive at workable objectives agreed with the industries;
- to see that these objectives are properly translated into quantified targets, and assess performance against these targets;

- to appreciate the business implications of other decisions affecting the industries;
- to ensure that the commercial needs of the industries are properly understood and taken into account by Government.

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

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

(i) A regular and systematic programme for comprehensive annual assessment of each major industry. This would be centred on the industry's Corporate Plan, and would look at the commercial performance of each industry including its achievements against agreed targets, its main forward plans, and trends in pay, pricing and productivity. The sponsor Department and its Secretary of State would be in the lead, but would report to Ministers collectively on the industry's performance and prospects, and on any strategic options needing collective consideration. This would lead into the IFR and thereafter to the autumn settlement of EFLs, and the aim would therefore be to carry out these reviews so far as possible by May of each year.

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

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

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

Better Self-Regulation of Nationalised Industries

8. As previously indicated, the absence of any real threat of bankruptcy and the relative weakness of market forces in some, though not all, nationalised industries is a factor that must be recognised; it imposes a duty on the Government to ensure on behalf of the nation that such industries are nevertheless efficient. Monopolies and Mergers Commission (MMC) references are the Government's principal instrument for securing an external public audit of industries' efficiency. Alternatively, enquiries by consultants may in some instances be appropriate. Following its undertaking in response to the PAC (cmnd 8323), the Government proposes to announce very shortly an extended programme of MMC references, on the lines described in the Annex.

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

10. Under the statutes the pursuit of efficiency is a major responsibility of the whole Board, under the Chairman. But the Government has been considering whether, without weakening the unity of the Boards, which is crucial to the effective conduct of the

businesses, ways can be found of giving the non-executive directors a still more positive role in this area than hitherto. This could be achieved in four main ways:-

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

(b) In addition, the Secretaries of State would invite the Chairmen to consider whether the non-executive directors could be charged with specific tasks, to the extent that their Boards judge this compatible with the effective conduct of their affairs, for example:-

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

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

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

(c) The Boards would be asked to consider the setting-up of Efficiency Audit Committees or similar bodies where these do not already exist in which the non-executive directors would play a major role.

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

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

these talks with a predisposition in favour of appointing non-executive members in sufficient numbers (normally a majority) and at the right levels of experience and personal calibre, to enable them to exercise a major influence on the work of their Boards, and to reassure public opinion that the Boards are effective self-regulating bodies, despite some lack of market forces. Ministers also see a general case for small Boards: the larger the Board, the less opportunity for constructive discussion by all members and the more key decision-making is likely to devolve to smaller groups.

Other Proposals

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

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

Conclusion

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

With the Compliments of

ROBIN IBBS

CENTRAL POLICY REVIEW
STAFF

Cabinet Office
Whitehall London
SW1A 2AS

Telephone 233 7765

Nat. Ind.

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

From: J. R. Ibbs

CONFIDENTIAL

Qa 05785

22 January 1982

Dear Secretary of State,

Nationalised Industry Objectives

Your Private Secretary's letter of 23 December 1981 asked for my comments on draft objectives for the British Gas Corporation, the Electricity Industry and the National Coal Board.

I have to say that these provisional drafts by your officials do not seem to me to be yet in a form which would achieve the firm base for Government/industry relations aimed at in our Report. They are, as the covering letter says, very general, and do not go far beyond the statutory duties which are constantly referred to. Although we envisaged that objectives should be set in qualitative terms, with detailed figures to be filled in later in the reviews of corporate plans, the essential point is that the objectives should be clear statements of what Ministers require from each industry.

This will entail some fundamental thinking about the direction in which Ministers wish each industry to develop. I make some suggestions about each of the three industries later in this letter. I recognise that this fundamental thinking will not be easy, and will present some difficult choices for Ministers. But I am convinced that unless Ministers address these issues, and have worked out a very clear idea of their preferred longer-term development for each industry for discussion with the Chairman, more precise direction of the industries will not be achieved and the setting of objectives will have little value.

Fundamental thinking about Ministers' real objectives is the first stage. The second stage is to decide how best to put these across to the industry. There may be a preliminary question whether the objectives

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

CONFIDENTIAL

match the present statutes or whether the statutes need to be changed. It may be that the sponsoring Minister will decide, for tactical reasons, not to reveal all his objectives explicitly to the Chairmen in written form if this would lead to a pointless confrontation. For example, in some cases the objectives formally put forward might be limited to intermediate aims related to the length of the present Chairman's appointment - though certainly this should not be a general rule. In the extreme case, if the current Chairman will not accept a Minister's real objectives there will be a question whether these should be modified or the Chairman replaced. What is essential is that any difficulty envisaged in selling the objectives to the Chairman should not be allowed to be an excuse for not having them clearly defined in the Department.

Finally, as a third stage there will be a question whether objectives are to be published and in what form. I recognise that there may have to be some iteration, and what is to be published may reflect back on what is put to the Chairman. But I do not think it should be assumed from the outset that the objectives will be published without modification, or the result is likely to be bland and unhelpful.

There is one further point I should like to make on objectives for the energy industries generally. A main aim of policy in the past seems to have been to ensure that capacity is sufficient to ensure meeting national 'needs'. We are witnessing the costs of this in the shape of excess capacity in coal and electricity. For the future, world economic growth rates now seem to be on a lower trend than in the post-war period. Equally important, experience in the 1970s suggests a more unstable future. In this environment all businesses must become more flexible - and this needs to be reflected in the objectives of the nationalised industries. For each industry a fresh look will be needed on size of producing units, diversity of supply and more adaptability from consumers.

I now list some strategic questions which struck me on reading the draft objectives for each of the individual industries:

National Coal Board

(i) Should it not be made explicit that the eventual goal is for the NCB to earn a positive rate of return on assets resulting in a

reasonable contribution to financial self-sufficiency? 'Breaking even on historic cost basis without deficit and operating grants' is surely an intermediate objective.

(ii) Two important steps towards realising the intermediate objective of breaking even are to reduce the current over-capacity as rapidly as possible through accelerated pit closures, and to secure a greater willingness throughout the industry to face economic realities. Can some way be found of writing into the objectives that the Government regards these as essential aims?

(iii) Is not the aim to reduce overall unit costs in real terms a modest one? Will not the phasing out of high cost pits and the impact of the substantial investment in recent years make this almost automatic? Would not a more appropriate medium-term target be to reduce the average unit cost of those pits which are to continue?

(iv) Should the long-term aim be for the NCB to produce less coal than aggregate UK demand? This would ensure that imports retained a long-term foothold in the market to promote continuing competitive pressure. Is not the insurance policy of net exports too expensive in national terms? If this is accepted, then it should be made explicit to the NCB that there is no strategic need for UK demand to be met wholly from indigenous production. This would clearly have a direct bearing on the size of the investment programme since it would point towards lower demand scenarios with the flexibility to increase output in the medium term if these prove too pessimistic. What in any case is the NCB's flexibility to increase production?

Electricity

(i) A decision needs to be made on the structure of the industry and this in turn depends on what Ministers want from the industry. Do Ministers want a strong centrally controlled supply-led industry which would facilitate the introduction of nuclear power? Or do they want a more fragmented industry with supply and sales integrated

on a regional basis which would result in greater customer responsiveness and a dilution of union power?

(ii) In the interests of preventing a recurrence of the present over-capacity does the standard of service need revising. Do Ministers consider that consumers would now be prepared to accept a higher possibility of brown-outs at winter peak demands in return for lower tariffs? A reduction in the plant planning margin, which is currently under examination, would be helpful.

(iii) If more capacity is installed, should one of the industry's specific objectives be to enhance supply flexibility by constructing between now and the end of the century only nuclear or coastal based power stations (thereby ensuring a continuing supply of coal imports)?

(iv) Should electricity pricing be made more responsive to commercial pressures by withdrawing the statutory requirement that there should be no discrimination between consumers?

(v) How should the industry interpret its objective in regard to its suppliers? Does it mean, for instance, it should try to retain two UK turbine manufacturers?

British Gas Corporation

(i) What will be the ultimate structure of BGC? Is it envisaged that it will be solely a trunk pipeline distributor of gas for third parties? Will its producing gas fields be privatised in the wake of its oil assets and retailing outlets? Will it be prevented from further exploration? Will the sales side be privatised on a regional basis? Will the seasonal storage facilities, in particular Morecambe, Rough and Canvey also be privatised? If so, what impact will this have on energy policy and security?

(ii) Once the long-term structure is decided, what profit centres for the industry are the most appropriate as the intermediary steps?

(iii) Is it intended that BGC will eventually become a manufacturer of synthetic gas to replace natural gas or will this be left to the private sector to develop?

(iv) What is the medium-term policy on domestic gas prices to be?

I recognise that these fundamental questions (which are not intended necessarily to be comprehensive) will not be easy to resolve. At the same time, however, the value of defining objectives lies in reaching answers to questions such as these. Until Ministers decide on the long-term direction, the relationship with the industries is going to continue to be characterised by squabbles and drift. I need hardly say that in working out the objectives for each industry in more detail, members of the Review Staff would be very ready to join in discussions with your officials.

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

Yours sincerely,

R.L. Hill

01 211 6402

J R Ibbs Esq
Central Policy Review Staff
Cabinet Office
70 Whitehall
LONDON
SW1A 2AS

23 December 1981

Dear Mr Ibbs,

NATIONALISED INDUSTRY OBJECTIVES

E(NI) Committee on 2 November invited sponsor Ministers to submit draft objectives to the Committee before Christmas. I attach draft objectives prepared by officials in this Department as a possible basis for discussion with the industries. As envisaged in the note which was sent to the NICG, they are drafted in a very general form, with a view to the possibility of developing them in discussion with the industries and to further elaboration and quantification in the industries' corporate plans. My Secretary of State has not yet been able to consider them but would welcome your comments.

The Government will be appointing new Chairmen to both the NCB and the CEGB around the middle of 1982. In the case of BGC, legislation has just been introduced which will enable the Government to make a radical alteration to the shape of the industry and which the Corporation will continue to oppose until it is enacted. In these circumstances, my Secretary of State feels that a discussion of objectives with these three industries in the near future would not be productive and that it would be better to defer such discussions until after the new Chairmen have been appointed and the Oil and Gas (Enterprise) Act is on the statute book. He also feels, though, that this need not prevent Ministers from continuing to clear their minds on objectives for these industries.

I am copying this letter to the private secretaries of members of E(NI) and to David Wright in the Cabinet Office.

Yours sincerely

David Lumley

DAVID LUMLEY
Private Secretary

DRAFT OBJECTIVES FOR BGC

In a manner consistent with statutory duties and obligations:

1. to provide for an economic and efficient gas supply for Great Britain, in particular by:-

a. ensuring a reliable supply at an economic price to customers whom the Corporation have a statutory contractual obligation to supply;

b. extending gas supplies to other customers whenever it is economic to do so, and consistent with the requirements of fair competition; and

c. pursuing a gas purchasing policy which gives due weight to considerations of fair competition, of cost and of supply security in both the short and longer term, and which takes account of such guidelines as may be agreed from time to time between the Corporation and the Secretary of State.

2. To operate an efficient and economic gas transmission and distribution network for the carriage both of BGC gas and of gas being supplied by others via BGC-owned pipelines.

3. To operate within the financial regime agreed with Secretary of State and the Treasury including the financial target and external financing limit.

4. To improve operating efficiency and restrain costs in all areas, and to meet any performance aims agreed with the Secretary of State to this end.

5. To plan and implement a programme of investment, consistent with the objectives on the financial regime and on efficiency and costs above and in line with guidance from the Secretary of State on the overall size and shape of the programme, such a programme to be justified by reference to techniques of appraisal agreed with the Department of Energy, including the RRR. The Department of Energy will be consulted on projects of major size or particular importance.

6. To set tariffs in accordance with general guidelines agreed with the Secretary of State and to negotiate contract prices in line with prevailing market conditions.

7. To identify and hive off into subsidiary companies peripheral activities not directly related to the main business for them to become candidates for privatisation, or in some cases, for joint ventures with the private sector and to take effective action to dispose of assets which have been identified as suitable for divestment.

8. To organise the remaining activities into separate profit centres so that the profitability of each can be clearly identified and monitored.

9. To maintain an adequate level of recruitment and training consistent with the Corporation's statutory obligations, these objectives, and the need to improve productivity.

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

11. To foster the Corporation's international consultancy service as a profitable business in its own right and in accordance with guidelines agreed with the Secretary of State.

12. To undertake research and development activities in accordance with a programme agreed with the Secretary of State.

DRAFT OBJECTIVES FOR ELECTRICITY INDUSTRY

A. INDUSTRY WIDE

In a manner consistent with statutory duties and obligations:

i. Meet the reasonable demands of consumers for a reliable and economical supply.

ii. Operate within the financial regime agreed with the Secretary of State and the Treasury, including the financial target and external financing limit.

iii. Improve operating efficiency and seek to reduce costs in all areas, and meet any performance aims agreed with the Secretary of State to this end.

iv. Plan and implement a programme of investment, consistent with the financial regime agreed with the Secretary of State and the Treasury, and the objectives of improved operating efficiency and cost reduction. The programme should be justified by reference to techniques of appraisal agreed with the Department of Energy and the Treasury including the RRR. The approval of the Secretary of State will continue to be required for projects of major importance, involving significant capital expenditure. The Secretary of State may give guidance about the overall size and shape of the investment programme.

v. Seek fuel economy and the efficient use of energy by means including the use of combined heat and power where economic, whether promoted by the industry or by others.

vi. To set tariffs in accordance with these objectives, in particular (ii) and (iii) above concerning financial disciplines and performance aims agreed with the Secretary of State.

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

ix. Develop closer working arrangements within the industry.

B. ELECTRICITY COUNCIL

i. carry out its statutory duties to:

a. advise the Secretary of State on questions affecting the electricity supply industry and matters relating thereto;

b. promote and assist the maintenance and development in England and Wales of an efficient, co-ordinated and economical system of electricity supply and to this end to foster closer working arrangements within the industry.

In particular:

ii. Ensure it is in a position at all times to offer an accurate and comprehensive account of the industry's financial position to the Secretary of State.

iii. Carry out a research and development programme according to plans agreed with Secretary of State; emphasis on work on nuclear power, renewable sources of energy, efficient use of energy and technological innovation - eg in the area of load control.

iv. Provide, through British Electricity International Ltd, support to British exports.

C. CEGB

i. Carry out its statutory duty to develop and maintain an efficient, co-ordinated and economical supply of electricity in bulk for all parts of England and Wales, consistent with industry objectives (i)-(x) of A above.

D. AREA BOARD

i. Carry out their statutory duty to acquire bulk supplies of electricity and to plan and carry out an efficient and economical distribution of those supplies to persons in their area, consistent with industry objectives (i)-(x) above.

DRAFT OBJECTIVES FOR THE NATIONAL COAL BOARD

In a manner consistent with statutory duties and obligations:

1. to operate within the financial regime agreed with the Secretary of State and the Treasury, including the external financing limit, and in particular to achieve an early return to breakeven on an historic cost basis without deficit and operating grants;

2. to improve operating efficiency and restrain costs in all areas so as to reduce overall unit costs in real terms, to meet any performance aims agreed with the Secretary of State to this end, and to permit prices to their customers which are fully competitive with the price of imported coal;

3. to plan and implement a programme of investment, consistent with the objectives on the financial regime and on efficiency and costs above and in line with guidance from the Secretary of State on the overall size and shape of the programme; such a programme to be justified by reference to techniques of appraisal agreed with the Department of Energy, including the RRR. The Department of Energy will be consulted on prospects of major size or particular importance;

4. to arrange for a secure and continuous supply of coal to that share of the energy market which the Board can hold on a lasting basis consistently with what is said above about profitability and prices;

5. to maintain an adequate level of recruitment and training consistent with the Corporation's statutory obligations, these objectives, and the need to improve productivity;

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

7. to keep under review the organisation and scope both of their mining activities and of their non-mining activities and to discuss any major changes with the Secretary of State;

8. to carry out a research and development programme according to plans agreed with the Secretary of State.

1. Mr Whitmore
2. Mr Ricketts

MCS 21/XII

CONFIDENTIAL

cc AD JV Nat Ind

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

I have told Anthony Meyer that the PM wishes to be consulted (Transport had thought that she had already been consulted informally via Sir R Armstrong). This is likely to be on Wednesday

MCS 21/12

Prime Minister

2 pps. (1)

The Rt Hon Baroness Young
Chancellor of the Duchy of Lancaster
Management and Personnel Office
Whitehall
LONDON
SW1

During my time here I have heard nothing about the proposed review at X overleaf.

16 December 1981

Shall I ask that you be consulted about its terms and chairman?

It has been mentioned before - but please ask that we are consulted about the chairmanship.

MCS 19/12

Dear Janet

At E(NI) on 3 December (E(NI)81 3rd Meeting, Item 3) it was agreed that Ministers sponsoring nationalised industries should write to you to say whether we would welcome Rayner scrutinies in their Departments, on the lines set out in your minute of 2 December to the Prime Minister, and also to indicate whether they would welcome any further advice by the Management and Personnel Office.

The railways are, of course, my Department's major pre-occupation among the nationalised industries. (Two of the other three are due to be privatised, and I have in hand for this session legislation to enable private capital to be introduced into the third - the National Bus Company - which colours relations with that industry). In the case of the railways, the issue which confronts my Department is the development of policies and systems of planning and control which secure the best value for money from an industry which consumes nearly £1 bn of grant annually. I have one directorate which, with financial and economic advice, is responsible for dealings with the industry and advising me on the difficult political and financial questions which arise. I do not think that questions of economy and effectiveness of administration, which are the traditional strengths of the Rayner scrutinies, are the major issues.

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As set out in the paper by the CPRS (E(NI)(81)7) I am intending to recruit a businessman to serve as joint head of the Railways Directorate, and as I understand it this has the warm support of my colleagues as well as of the CPRS. I think that my priority should be to find a suitable person as quickly as possible, and I am trying to do just that. The recommendations in the CPRS review are very close indeed to the arrangements which we already have with BR, and my understanding is that the CPRS are broadly content with the way in which we are currently operating. We are of course constantly looking for improvements, and I hope that the review of railway policy and finance, which I intend to get under way quickly, and which will be chaired by an independent businessman, may show ways in which we could improve our relationships with the Board.

I will of course consider, after we have completed the review, and after we have got our businessman in post in the Railways Directorate, whether there are any detailed aspects of the arrangements where a Rayner scrutiny might be appropiate and helpful.

I am sending copies of this to the Prime Minister, our colleagues in E, Sir Robert Armstrong and Mr Ibbs.

Yours ever

David

DAVID HOWELL

Nat Ind Policy

UNCLASSIFIED

Nat Ind

FROM: H C GOODMAN
Date: 17. December 1981

cc. Mr. Locke.
Mr. R. Evans.

PARLIAMENTARY CLERK 128/2.

CPRS REPORT: CHANCELLOR'S MEETING WITH NI CHAIRMAN

The Chancellor met nationalised industry Chairmen on Wednesday afternoon to discuss the recommendations of the CPRS report.

2. No 10 may find it useful to have this press briefing:-

1. Scope of the CPRS report

The CPRS were invited to study the relationship between Government and the nationalised industries, with a view to establishing how this might be improved. It is strongly in the interest of both sides to secure a better mutual understanding and a greater unity of purpose.

2. Will the Report be published/shown to the Chairman?

The Report is an internal document, and it is not the practice to publish advice to Ministers. The Chairman have been sent, on a confidential basis, a summary of the conclusions as they affect the industries. [IF PRESSED: But we do not intend to show them the Report. The Chairman have been told of all the proposals that concern them.]

3. Why did the Chancellor see the Chairman?

The Chancellor agreed to discuss the Report's recommendations before the Government's decisions are announced. He is naturally concerned to secure the broadest possible base of agreement for implementing the various changes.

4. Will there be further meetings?

A sensible and constructive beginning was made today, and will continue. We are concerned that the process of consultation should be genuine, but there is much public interest in the Report, and we hope that an announcement will not be too long delayed.

5. What are the Report's main conclusions?

What are the Chairmen concerned about?

When final decisions have been taken, these will be announced in the usual way. It would not be appropriate in the meantime to pre-empt that announcement. The Chairmen naturally have an interest in the Report's main conclusions as these affect their industries, but we very much hope to reach voluntary agreement so far as possible. The Chairmen told us that there is much in the Report that they can endorse. We are seeking to build on that.

6. Why is the Government doing all this? To take over the running of the industries?

Not at all. One important general emphasis is the need to improve understanding of the industries as businesses, by developing expertise within Whitehall. This is essential if Departments are to do their job of monitoring and assessing the industries, as the public has a right to expect. But we do not intend to second-guess the industries' commercial judgement, which is and must remain a matter for the industries themselves.

HC Goodman.

H C GOODMAN

17 December 1981

NATIONALISED INDUSTRIES
Part 5 — Policy Towards the Nationalised Industries.

DEPARTMENT OF TRADE

Consumers' Interests and the Nationalised Industries- A Consultative Document

NOT FOR PUBLICATION
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This Document is issued in advance on the strict understanding that no approach is made to any person or organisation about its contents before time of publication

Department of Trade

LONDON
1981

DEPARTMENT OF TRADE

Consumers' Interests and the Nationalised Industries- A Consultative Document

Department of Trade

LONDON
1981

First published 1981

CONSUMERS' INTERESTS AND THE NATIONALISED INDUSTRIES– A CONSULTATIVE DOCUMENT

FOREWORD BY THE MINISTER OF STATE FOR CONSUMER AFFAIRS, DEPARTMENT OF TRADE

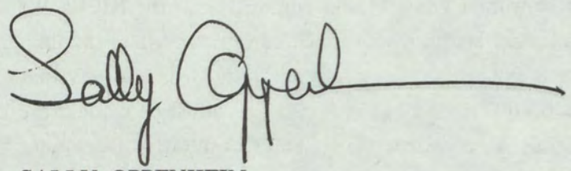
This paper is mainly about, and results from an extensive review of, the work of the nationalised industry consultative and consumer councils and committees – the NICCs. We have looked closely at their present role and at the whole range of options for re-shaping: from complete abolition to leaving them exactly as they are. I am quite clear not only that the protection afforded by the NICCs is still needed but also that they must be made more effective and compact. They may possibly need restructuring. The Consultative Document explores how that might be achieved.

The NICCs must command the confidence of consumers. The whole structure must appear more accessible and be seen to be wholly independent. Above all the NICCs must get, and be seen to get, practical results. In particular they need to provide an expert and effective complaints-handling service, easily accessible and known to and trusted by consumers. I attach very high priority to this because it is where the NICCs can most clearly help those who need them.

I myself am quite convinced that we need to reduce the number of NICCs but increase their authority; that they should spend more of their available time and resources on pursuing the concrete problems of customers and less on broad policy issues; and that the arrangements should be such that Councils can resist being deflected from pursuing improvements by assertions like 'That can't be done' because they know full well that what they are seeking in one region is already standard practice in another; and so on. Of course, respondents to this paper will have many broad and detailed suggestions to make. For example, consideration of complaints-handling naturally opens up questions of accessibility and the use of devices like Freefone, Freepost, complaints boxes on railway stations, participation in radio 'phone-ins' and the like.

This Consultative Document necessarily concentrates on the broad framework and other major issues. It suggests two possible reforms: a major re-structuring involving amalgamations; and more modest reform, mainly of the Gas and Transport NICCs. My colleagues and I do not want to make major change for its own sake. If we are to undertake a major re-structuring we shall need to be fully satisfied that the long-term benefits justify the new legislation needed.

I claim no monopoly of new ideas about reforms. I seek particularly observations on those we suggest in this paper. But I am very ready indeed to consider any proposals which are aimed at achieving the objectives set out in paragraph 29. I very much look forward to getting a substantial response especially from those who work in or with the NICCs. The present NICC arrangements have served us well for over 30 years. I am looking for new ones which will do even better and last a long time. I need to draw upon the experience and advice of all interested parties to achieve that.



SALLY OPPENHEIM

December 1981

Further copies of this report can be obtained from, and comments should be addressed to, the following address:

Consumer Affairs Division
Department of Trade
Room 2521
Millbank Tower
Millbank
LONDON SW1P 4QU

Comments should reach the Department no later than 15 March 1982

CONTENTS

I INTRODUCTION

1 In May 1979 the Government announced that it was to review the 44 nationalised industry consultative and consumer councils and committees (the NICCs) in Great Britain*. There were three main reasons for doing so.

2 First, many nationalised industries enjoy a considerable degree of immunity from the free play of the market and are not under the same pressure as private sector companies to promote efficiency, contain costs and act responsively towards customers. The Government has introduced legislation wherever possible to remove or reduce statutory monopolies and other barriers to competition and in some cases to enable the sale of shares in industries. Where nationalised industries are not or cannot be exposed to market forces, the Government has established a framework of financial and other disciplines, including references under s11 of the Competition Act, to act as a substitute or proxy. The NICCs are part of this machinery, representing customer views direct to management, stimulating the industries to become more responsive and taking up customer complaints. The Government needed to satisfy itself that this was being carried on as effectively as possible.

3 Second, the Government is determined to wind up all non-Departmental public bodies which have served their purpose and to ensure that those which remain achieve high standards of economy, efficiency and effectiveness. The NICCs are funded entirely by the taxpayer through Central Government and require large numbers of Ministerial appointments. It was thus clearly right to consider whether the complex NICC structure of national, regional and local councils and committees is still justified. Although there has been some piecemeal evolution over the past 30 years, the basic structure dates from the time when the industries were first nationalised.

4 Third, a number of reports during the 1970s, notably by the Select Committee on Nationalised Industries (SCNI), the National Consumer Council (NCC) and 'Justice', while generally appreciative of the NICCs, were critical in a number of respects.

5 The time was thus clearly ripe for a review of the NICCs, the twin objectives of which were summed up in the *Report on Non-Departmental Public Bodies* (Cmnd. 7797): 'A review is in progress of the existing set-up ..... with the aim of replacing this by something smaller and more effective' (p118).

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*Northern Ireland has been dealt with separately.

II THE EXISTING STRUCTURE

6 The 44 NICCs cover the gas, electricity, coal, rail and ferry transport, and posts and telecommunications industries. All except the Electricity Consumers' Council (ECC) are statutory bodies, working within a framework set by the nationalisation legislation of 1945–50. They involve almost 1,000 Ministerial appointments. (The Regional gas and electricity NICCs in addition make some 2,200 appointments to their local committees, which formally are not NICCs.) The NICCs are serviced by a permanent staff of about 240. Their total cost was £3.7m in 1980–81.

7 The *gas* consumer bodies comprise a National Gas Consumers' Council (NGCC); 12 Regional Councils (reflecting the geographical structure of the British Gas Corporation (BGC)) and 63 local committees*. The *electricity* consumer structure similarly mirrors that of the electricity supply industry. For England and Wales there is an ECC, 12 Consultative Councils and 64 local committees*; there are two separate Councils, with 14 local committees*, each covering one of the two Scottish Electricity Boards. *Rail and ferry transport* has a Central Transport Consultative Committee (CTCC) and 11 Area Transport Users' Consultative Committees (TUCCs). The geographical coverage of the regional (and local) bodies is determined by the geographical responsibilities of the regional organisations within the nationalised industries.

8 The Post Office Users' National Council (POUNC) deals nationally with *posts and telecommunications.* There are separate but subordinate Councils (POUCs) for Scotland and Wales. There is no formal sub-structure but the Councils obtain advice from local Post Office Advisory Committees (POACs), some of which receive modest Government support. *Coal* has a single national council, the Domestic Coal Consumers' Council (DCCC). (Complaints are dealt with through the (private) Approved Coal Merchants Scheme (ACMS): see below.)

9 All the NICCs, save the ECC, have statutory functions, certain of which are broadly similar. In general they are required to consider any matters raised by consumers, Ministers or the industries themselves concerning the service and facilities provided by their respective industries (although the CTCC and TUCCs are specifically excluded from considering charges); they can pursue matters which appear to them to be worthy of consideration; and, where action appears to the Councils to be necessary on specific issues, they are required to notify their conclusions to the industry and/or the Minister. Local committee arrangements are established by the Regional Councils (who make appointments to them), subject to Ministerial approval.

*These committees are known variously as 'local', 'district' or 'area' committees.

10 The National Councils are primarily concerned with policy and strategic issues. They undertake a limited amount of research; in recent years a degree of co-operation between themselves and with other consumer bodies on joint projects has emerged. The relationship between national and regional bodies is a shifting and perhaps somewhat uneasy one. Some central co-ordination of the second tier activities is achieved by membership of the National Councils of Regional Council chairmen. At the regional level policy issues also feature prominently as do complaints. The prime function of local committees is settling complaints but they in turn also spend time discussing national and regional issues. The majority of the complaints dealt with by the local committees are received via the Regional Secretariat, although some are made direct to local committee members, particularly those who are well known locally. The Chairmen of local committees invariably sit on Regional Councils. Wide variation can be found in the way Regional Councils and local committees operate within the same NICC. For example, there are significant differences in the geographical 'density' of local committees.

11 Within this broad pattern there are considerable differences in emphasis from NICC to NICC. Handling complaints is an important part of the energy Regional Councils' work, but only a relatively minor part of that of the National Councils and of the TUCCs. POUNC has traditionally focussed on prices and quality of service although the national headquarters receives and deals with complaints. The DCCC members' role as consumer representatives on the panels of the ACMS has no parallel amongst the other NICCs. In part, these differences of approach reflect differences in the nature of the industries concerned: it is possible to remedy a defective appliance or mistaken bill, but not a single cancelled train or a late letter. In part, they reflect differences in structure, statutory powers and history.

12 Over the years complaints have become a more significant element in the work of the NICCs. Currently between them they handle about 70,000 complaints from consumers who have sought, but failed to obtain, satisfaction from the industries. Nevertheless the findings of NCC surveys suggest that complaints to the NICCs are only the tip of the iceberg. Many go to Citizens' Advice Bureaux (CABx) and other agencies. But many people simply do not complain at all because they feel it pointless to battle with large, powerful corporations; or are unaware of the appropriate NICC; or believe NICCs are off-shoots of the industries themselves.

13 The NICCs do not cover London Transport Services*, buses, water or aviation. London Transport has its own consumer arrangements; those for buses are primarily in the hands of local authorities. In England and Wales local authority nominees provide the majority of the members of Water Authorities (WAs) with the job, inter alia, of bringing to

*Except as regards proposed permanent closure of underground lines

bear the views of water users. The provision of water in Scotland is a direct responsibility of local authorities. Aviation is subject to the general oversight of the Civil Aviation Authority (CAA) which has an Air Transport Users' Committee (AUC) to advise it. There are also Airport Consultative Committees (ACCs) covering British Airports Authority (BAA) and the larger local authority airports.

14 More detailed information about all these bodies is given in Annex A.

III PRESENT PERFORMANCE

15 When the NICCs were first established in 1945–50, there was little pre-war experience of nationalised industries on which to draw. Many of the enterprises had been in municipal hands. The NICCs were intended essentially to meet concern that in the new state monopolies the interests of management and employees might over-ride those of consumers; and to give local authorities a special continuing role in respect of the gas and electricity industries. The NICCs have had to evolve their detailed activities and working methods in response to the major changes in the industries and society as best they could within the basic structure set them, with only limited advice or guidance from Government on priorities and functions.

16 Against this background it is helpful to apply the tests proposed in paragraph 24 of Cmnd. 7797 to assess the performance of and need for non-Departmental public bodies.

'Are the functions being carried out well and economically?'

17 Reports by the SCNI, the NCC and 'Justice' conclude that the NICCs do much good work. The gas and electricity NICCs in particular often resolve varied problems of complainants when the industries themselves have failed to do so. They have played an important role in influencing 'middle management' policies, for example, in relation to area electricity tariffs, monitoring the codes of practice on disconnections and regional rail timetabling. They have made a sensible – though not decisive – contribution to strategic national issues, such as pricing and investment.

18 These reports also make a number of criticisms. The most important are:

a the NICCs are not well enough known to consumers;

b they are not cost-effective in dealing with customer complaints;

c they are, or appear, insufficiently independent of the industries;

d they are ineffective when raising policy matters, being too often ignored by the industries and Government.

19 The first two are related and, in spite of better self promotion (notably by the NGCC) in recent years, have some validity. Lack of awareness of the NICCs and of the help they can offer means that they are less used and, hence, each complaint costs more to resolve than it might. Moreover, the NICCs are not always sufficiently effective in dealing with customer complaints.

20 As regards NICC independence, there is a delicate balance to be struck between establishing working relationships with industry and preserving autonomy. In practice, in some areas, the NICCs appear to have managed to achieve it. We do not believe that they defer unduly to, or accept uncritically the views of, industry management though in the handling of complaints they sometimes give that impression. The appearance of independence is as important as the fact. Any suspicion that NICC-industry relations are too 'cosy' is damaging to the NICCs: their views are taken less seriously and complainants are less likely to seek their help. There are practices, such as Area ECC Chairmen sitting on Area Electricity Boards and the staffing of TUCC secretariats with seconded BR employees, which detract from the appearance of independence, even though they may help the NICCs develop better understanding of, and closer relationships with, the industry. More generally there is a case for reviewing the one-to-one NICC-industry relationships. We return to these points later.

21 The criticism that the NICCs are ineffective when raising policy matters is less valid. On non-financial policy questions, such as the development of codes of practice on disconnection of energy supplies or on Post Office compensation, they have achieved a great deal. Their contributions on financial policy questions, such as CEGB forecasting of costs or postage rates, have also carried weight. These are areas where the consumer view has to be balanced against the potentially conflicting interests of the taxpayer and of the economy as a whole. The NICCs are certainly not ignored by the industries or Government, but their voices cannot be decisive.

22 As regards the economical performance of their functions, scope clearly exists for improving cost-effectiveness. For example, by rationalising the complex structure of committees: many third tier local committees, in particular, fail to exercise their 'grass roots' representative function and over-concentrate on general discussion of issues resolved elsewhere. These issues are dealt with more fully in Chapter IV.

'Are the functions best carried out by the NICCs rather than by other means?'

23 The work of a number of other organisations complements, and sometimes duplicates, that of the NICCs, but no single body could replace any one of the NICCs. For example, the Monopolies and Mergers Commission (MMC) and the NCC can consider national and regional policy issues, but not on the same continuing basis as the NICCs; nor can they handle complaints. The CABx handle many complaints, but do not take up major policy issues. Organisations such as the Mail Users' Association, the National Association of Rail Passengers, or the Electrical Association for Women (to name only a few), cover much the same field as that of the NICCs, but they neither represent all consumers nor enjoy the statutory authority of the NICCs.

24 Collectively such bodies could replace much of the work of the NICCs. If the NICCs disappeared, complainants would turn to the CABx and other agencies and the Government could continue to bring a consumer voice to bear on national policy issues by enhancing the role of the NCC and making increased use of references to the MMC under s11 of the Competition Act 1980. However, this could not be regarded as an improvement on the NICC system. The complaints handling service would be diminished: for example, the geographical coverage of the CABx is far from even; their 10,000–12,000 mainly voluntary staff have considerable familiarity with the complex financial problems of clients that can lead to gas or electricity disconnections, but also draw on the industry expertise and contacts of the NICCs; nor would the increased workload be welcomed by the CAB movement or any of the other organisations who would receive complaints formerly handled by the NICCs. Again, with the possible exception of the transport sector, there would be a significant loss of 'consumer' input at the 'middle management' level. Lastly, the dispersal of NICC functions around a range of different bodies would itself be damaging: complaints-handling and policy roles are closely related, since complaints patterns will indicate trends of consumer dissatisfaction with industry policies.

25 Central Government could itself theoretically assume the NICCs' functions, but this is undesirable on a number of counts. The Government cannot have a 'partisan' consumer voice; nor could it easily take up local complaints and policy issues; lastly, it would be unacceptable to replace unpaid or part-time paid members of the Councils and their local committees by full time civil servants.

'Are the functions being carried out essential? Or, if not, are they valuable enough to justify the time and money spent on them?'

26 Notwithstanding the nationalised industries' own considerable efforts to become more responsive, we believe, for the reasons given in paragraph 2, that the present NICC functions are still required. The system is unique in combining an independent machinery for resolving customer complaints with the monitoring of 'middle management' policy and practice which affects quality of service and with the ability to comment on strategic areas of national policy. Complaints handling is of particular importance and the function from which consumers derive the most immediate benefit, but (as noted in paragraph 24) these various functions are mutually reinforcing.

27 There is, additionally, the all-important factor of customer expectations. These are high and, rightly or wrongly, the nationalised industries are felt not to meet them. Moreover, not only do many users feel powerless in their dealings with the industries, they may actually have more limited legal rights of redress than in their dealings with private firms. In short, there is a gap to be bridged between customer and nationalised industry and the NICCs are needed to bridge it.

28 The cost of the NICCs, whilst small in relation to the turnover of the industries they cover, is nevertheless substantial. The time spent on NICC work by the 3,000 or so unpaid members is considerable. The NICC functions may well justify the time and money spent on them, but one major aim in any reform must be to improve the service they offer and to make more effective use of their resources.

Conclusions

29 In short we firmly believe that there is a need for the NICCs, or something like them, and that they could not satisfactorily be replaced by another existing body or bodies. It is also evident that there are defects in the existing system and, consequently, the NICCs cannot be left as they are. What is needed is reform – not major changes of role and function, but rather greater clarity of purpose, better ordering of priorities and a slimmer, more professional machinery. The objectives of such reform can be summarised more specifically as follows:

a to promote a more effective system, particularly in the field of complaints handling;

b to produce arrangements that are better known to, and more readily understood by, consumers;

c to enhance NICC independence from the industries;

d to create fewer, smaller and more authoritative Councils.

IV OPTIONS FOR REFORM

30 This chapter identifies seven key areas in which changes might be sought which would fulfil the objectives in the preceding paragraph. Reforms which would require primary legislation are distinguished from those which could be effected within the existing statutory framework. The Government would only contemplate legislation if it were decided to carry out a major restructuring of the NICCs; it does not believe that legislation would be worthwhile or justified simply to make minor changes.

31 The areas considered are:

i functions and priorities
ii powers
iii scope of industry coverage
iv structure
v membership
vi training, staffing, accommodation, funding, and the like
vii relationships with other bodies.

i Functions and Priorities

32 The NICCs do not always exercise their functions as well as they might. Their priorities also appear to require some revision. For example:

a The efficient handling of complaints should be a main priority for all NICCs. National Councils, of course, need only become directly involved in individual cases infrequently, but they should at all times regard themselves as responsible for the way complaints are handled at regional and local levels and where they give rise to questions of national policy on the part of the industry concerned. There is scope, for example, for agreeing with the industries concerned that individual cases or groups of cases should serve as precedents, information about which could be widely disseminated, to save time in handling subsequent similar problems; this would be one part of the general promotion of inter-NICC and intra–NICC exchange of experience on complaints handling. A prerequisite for improvement in this direction is the maintenance of better and more standardised records, an aspect of Regional Secretariat work that appears neglected.

b Constructive NICC scrutiny of, and comment on, price proposals is at the same time difficult and sensitive from many points of view. The setting of financial objectives and external financing limits are matters between the Government and the industries. Yet undoubtedly the public regard prices

as one of the most important, if not the most important, field in which the customers' watchdogs should be active. Without encroaching upon the role of management (or of Government) it ought to be possible for the NICCs to supply a critical but constructive input in relation to costs. Indeed in the financial area the NICCs' most important function at national, and possibly regional, level probably ought to be in seeking 'value for money' and to be seen to be doing so. POUNC are currently exploring with the Post Office the possibility of conducting a 'customer audit', under which they would analyse the relative movements in price and quality of service, seeking explanations of any changes noted. The Centre for Policy Studies, too, have commended the idea of a 'value-for-money audit' although their approach differs from that of POUNC. Other NICCs might usefully consider this approach, assuming their industries already have, or could collect, quality of service data amenable to such analysis.

c NICC impact on both industry management and the public must be fostered. This – again – requires a delicate balance. The NICCs are not executive bodies; only management can effect change. But an important objective of the NICCs must be constructively to assist this. Present relationships between the NICCs and industries are close and valuable. For example, industry representatives frequently participate in meetings of local committees. But the way in which these relationships operate at present varies widely from body to body and careful examination is needed to determine the practices most likely to promote both close co-operation and NICC independence. There are other ways in which the punch of the NICCs might be increased, without either radical change in the organisations or major new expenditure: eg by improved use of the media and other institutions. Advertising is expensive, but regional and local publicity (in particular) ought to be obtainable without unfairly criticising the industries – indeed opportunities for co-operative activity may exist.

33 The examples in the previous paragraph are, of necessity, limited and couched in general terms. It is clear that the Government ought to give clear, if broad, guidance to the NICCs on what it sees as their proper functions and priorities. This would, almost certainly, be best done by open, published guidelines, rather than by detailed law, though some form of Parliamentary scrutiny and approval could be considered. Matching expressions of expectations of the industries (eg about the provision of information) might also be helpful in some cases. Reference to this is made elsewhere in the paper and in Annexes B and C.

ii **Powers**

34 The Government does not consider that any major change is needed in the statutory powers and duties of the NICCs. Their success in resolving complaints owes nothing to such powers and duties; nor would changes here make their voice on policy matters more forceful. The objective must rather be to foster further the co-operative endeavour between the NICCs and nationalised industry management which has developed over the years, bearing in mind that the key to effective and constructive action by the NICCs is access to information relevant to their functions.

35 If legislation were introduced, it would of course be for consideration whether the present diverse statutory rights of the NICCs should be made somewhat more uniform. The Government does not however believe that this should involve giving the transport NICCs the ability to comment on rail fares, which they are statutorily precluded from doing at present. It has been the policy of successive Governments that BR should be free to set prices which attract custom at a market level. British Rail is subject to direct competition from other forms of transport, especially on their main trunk routes. Such competition has been increased by the Transport Act 1980. It should not in these circumstances be necessary to introduce an outside scrutiny of railway fares.

36 A separate issue (alluded to in paragraph 10) which arises is the relationship between the National and Regional Councils. It is possible that arrangements which gave National Councils greater oversight of Regional Councils might be beneficial. The aim would be better co-ordination without reducing the Regional Councils to satellite status. Here again the issue of guidelines, rather than rules with the force of law, might be the most effective way of achieving the right mixture of authority and independence.

iii **Scope**

37 The NICCs provide only part of the arrangements for directly promoting the interests of the consumer. Mention has been made, for example, of the separate arrangements regarding London Transport and the role of local authorities in relation to buses. For the most part they would probably not be improved by being brought within the centrally financed NICC structure. It is for consideration, however, whether some might be, for example, the English Water Authorities and the Welsh Water Authority, the National Bus Company (NBC) and the Scottish Bus Group (SBG).

38 *Water services* (ie principally water supply, sewerage and sewage disposal and land drainage) are provided by the 10 Water Authorities (WAs). In areas covered by the 28 statutory water companies (SWCOs) the WAs' water supply duties are discharged through the companies. There is no consumer representation provision in respect of SWCOs. The

Monopolies and Mergers Commission's report on Severn-Trent Water Authority published in June 1981, said that when the rights of local authorities to nominate a majority of the members of the Authority were established under the Water Act 1973 it was hoped that this would enable consumer interests to be adequately taken into account when the policies of the Authority were being determined, but it was clear that these hopes had not been satisfactorily fulfilled. The Commission recommended a substantial reduction in the size of the membership of the Authority, which should not be based predominantly on local government representation, and put forward criteria for effective consumer representation in the water industry: a separate consumer body for Severn-Trent's area sufficiently large (somewhere between 50 and 100 members) to extend the link with local government and also provide more straightforward representation of local consumer interests as well as representation of other bodies such as the CBI, TUC, Chambers of Commerce and recognised consumer groups. The Government is consulting separately on the future membership of Regional Water Authorities and will be looking at the position of the water industry in relation to this review. Following consultation the Secretary of State for Wales has now laid before Parliament an Order varying the constitution of the Welsh Water Authority and is proposing the setting up of local consumer advisory committees.

39 *Civil aviation* involves a very large number of organisations, some in the public sector, many in the private. Any journey by air brings the passenger in contact with a number of them (eg customs, immigration, catering concessionaires, airlines and surface transport authorities) and, if he or she is dissatisfied, more than one may be at fault. A consumer council constituted to deal only with complaints about nationalised industries or the public sector would be able to deal only with a small proportion of those which might arise in civil aviation. Machinery already exists to represent customer interests in this area. It has generally worked well in the past and should continue to do so. The AUC advises the CAA on its statutory duty to safeguard the interests of airline users; this includes the investigation of individual complaints against airlines. The representation of air travellers' interests at airports, on the other hand, is best handled by the ACCs, which have been set up at all airports of any size, and whose responsibilities also include consideration of the interest of other parties affected by the airport, such as airlines and cargo handlers, local authorities and organisations representing the local community. The strength of the present Consultative Committees lies in their ability to consider all aspects of an airport operation.

40 *Bus services* are provided by a range of bodies: two nationalised industries (the NBC and SBG); London Transport; 7 Passenger Transport Executives (PTEs); some 50 municipal bus companies; and a host of private firms. Among the public sector providers of bus services, London Transport and the PTEs already have consumer bodies and the municipal operators' policies can be prominent issues in local politics. It can be argued that the NBC and SBG are relatively immune to consumer pressure. However, bus services differ from most other services provided by nationalised industries: the NBC and SBG together provide

less than half the bus services in the country and they have been exposed to competition from the private sector by the Transport Act 1980. The problems met by individual bus users are almost always essentially local matters which can be taken up with the management by County or (in Scotland) Regional Councils. Recourse may also be had to the Traffic Commissioners where complainants have not received satisfaction from the bus operator. Against this background there must be doubt whether NICC scrutiny of that part of the bus industry which is nationalised would significantly strengthen existing safeguards for bus users.

41 There is lastly the question whether NICCs should cover all the activities of nationalised industries or only those where a monopoly or near-monopoly exists. The Government accepts* that genuinely competitive services of otherwise monopolistic nationalised industries need not be formally subject to NICC scrutiny, so long as customers are not likely to be confused by this. However, the Government would not wish to promulgate complex legislation, primary or secondary, to remove marginal activities of industries from NICCs' remits; this is an area where the exercise of common sense by all parties should be sufficient.

iv Structure

42 The two structural options most likely to meet the objectives identified in paragraph 29 are as follows.

a Reform without legislative change

43 The first is to leave the statutory base unchanged: there would continue to be a separate NICC for each industry at national level, but the regional structure would be slimmed down where appropriate. For example, the number of Regional Gas Consumers' Councils in England might be reduced from 10 to 4. Each would then have oversight of 2 or 3 BGC Regions. (Scotland and Wales would each continue to have their own Councils.) The effect would be to raise the status of each Council, enhancing the impact on both the public and the industries. The distancing of the Councils from their industries would promote independence and would enable each Council to compare one Region's practice with another; they would be in a much better position to form, and promote, ideas of 'best practice' in the industry: some Regions are quite markedly better than others at settling disputes, in fixing and keeping to appointments by meter-readers and service staff, in implementing the codes on disconnections, etc. By judicious use of publicity, the Council could bring each Region up to the standard of the best. Apart from this decrease in numbers of Councils, there would be scope for economies of scale in complaints handling and for revising the schemes of local representation, as described in paragraph 45. The enhanced

*As in the British Telecommunications Act

status of the Councils might well offset the increased difficulty of attracting high-calibre members which the heavier burden of work might generate.

44 The Area TUCCs could also be reformed. The aim here would be to create TUCC Regions that matched as closely as possible the 5 British Rail operating Regions. This would enable each Committee to consider the varying user requirements and system constraints on route 'corridors', which comprise inter-city, local and commuter services. The normal level of TUCC access to BR would be raised from Divisional to Regional management; the same benefits of increased status would accrue as in the case of the Regional Gas Consumers' Councils.

45 The number of Area ECCs could not be reduced in this way, because they are statutorily linked to the Area Electricity Boards. Nor, given the 'federal' structure of the electricity industry, is the case for merging Area ECCs quite so strong as for the Gas Councils. However, for both gas and electricity, the number of local committees could be reduced with the co-operation of the NICCs. The twin aims would be to make local contacts as accessible as possible to consumers, whilst reducing the burden of duplicative formal meetings of committees. Other forms of local representation and contact points might be evolved, eg CABx, CACs or local correspondents with Freefone access to the Regional Council's Secretariat, having an organic relationship between themselves and with the Regional Councils different from the present one.

46 The existing NICCs could also be helped informally to seek improved performance. The Government for example, might examine the scope for encouraging, through the publication of guidelines, the NICCs to work towards greater co-operation among themselves; closer co-operation with the CAB movement, other consumer bodies and local authorities on training of staff and members; exchange of information, rationalisation of complaint handling and recording procedures with improved feed-back from local members; etc. It is illustrative of what might be done that many NICCs have no arrangements for training newly appointed members. In none of this would the Government wish to impose a uniform pattern nor work towards such improvements without the closest consultation with those with experience in the field. The changes that could be made without legislation are described more fully in Annex B.

47 In sum, such reforms could reduce the number of NICCs from 44 to 33 and the number of Ministerial appointments from almost 1000 to about 750, whilst offering the NICCs an opportunity to present a more authoritative and coherent consumer voice.

b Reforms requiring new legislation

48 The second option is broadly to amalgamate the present energy NICCs (gas, electricity and coal) and possibly bring within the same body consumer representation in

respect of water, thus creating a 'Utilities' NICC. A separate NICC structure might be retained covering BR and the ferries as at present, but with the possible addition of the nationalised bus services. A third NICC, 'Communications,' would have the same field of responsibility as the existing POUNC (and POUCs) – posts and telecommunications. This would create a coherent set of 'sectoral' arrangements. There is sufficient similarity between the problems arising in the different utilities – particularly gas and electricity – for them to be handled by a single body at national level. Some internal specialisation would be required, which should be possible with Councils of manageable size and adequate support staff, but this would not reduce the much improved opportunity for inter- as well as intra-industry comparisons and promotion of 'best practice'.

49 The 'Utilities' and 'Transport' National Councils would each be supported by Regional Councils and local representation, with the same industry coverage as the national bodies. The thinning out described in paragraph 43 in respect of gas would apply to the 'Utilities' Council as a whole – ie it too would have 4 English Regional Councils as well as separate Councils for Scotland and Wales. Local representation would normally be amalgamated (see paragraph 45), but separate specialisations could be considered. This, together with adoption of the Transport reforms suggested in paragraph 44, would result in a very much slimmer organisation than under the first option. The Regional Councils and local representatives would, of course, continue to handle middle management issues and probably receive the bulk of complaints. This more radical approach would reduce the number of NICCs by almost two-thirds to about 17 and the number of Ministerial appointments to say 350. Regional Councils would also need 'internal' specialisation and an increased burden on appointed members must be acknowledged. Some Councils might require more than one office, the sub-office dealing largely with complaints and local promotional work. The concentration of centres ought to avoid increasing staff numbers. Better training and organisation hold out the hope of an improvement in effectiveness.

50 Sub-regional arrangements would still be required to provide local contact between consumers and the NICCs. As suggested in the first option this could take a variety of forms, including the present type of local committee. The general aim would be to harness local contacts and representation both to the enhanced expertise and influence of the Regional Councils and their staffs while at the same time encouraging, through direct contact, the continued local settlement of many individual issues. Annex C refers to the possibility of sectoral NICCs sharing accommodation and support services at Regional HQs and sub-offices (along the lines illustrated in Table 3). These offices could form well-publicised complaint centres, with distinctive Post Office box numbers or postcodes, and with expert staff capable of handling (directly or by reference to other agencies) the whole range of consumer complaints with nationalised industries.

51 Adoption of this second option would, of course, require legislation, which the Government would not be willing to introduce unless it were fully satisfied that the advantages – a more authoritative and streamlined structure than under the first option – outweighed any possible disadvantages. The Government has, however, considered this option carefully and concluded that, given NICC members of the right calibre and commitment, this is both a workable and potentially highly effective structure. Annex C describes in detail how this might appear.

v Membership

52 Experience suggests that smaller Councils work more effectively than larger ones. The optimum size for the average energy NICC appears to be about 15–20 members; the TUCCs and POUCs could be slightly smaller, say 12–15. Nominations for NICCs are currently drawn from a wide range of bodies so as to obtain a balance of consumer interests and expertise. This process of trawling widely could be further widened. For example, the experience of past and present local authority members is invaluable as is their high public profile, but it is questionable whether, in any new machinery, local authorities should have a fixed quota of members on particular Councils. Local authority members of Gas Councils must by law be serving members of local authorities, which appears unduly restrictive. There could be more encouragement of self-nomination and wider sponsorship by bodies not directly approached by the Government. Legislation would be required to effect most of these changes.

53 Appointments to NICCs proper are made by Ministers; members of local committees are appointed by the NICCs themselves. Only Chairmen of National and Regional Councils are paid appointments. Reducing the number of appointments made by Ministers seems better achieved by reducing the number and size of bodies, rather than by further delegation. Centralised appointment-making is probably more economical, more likely to promote uniform standards and more widely tap sources than decentralised machinery and thus preferable except where the need for local selection is overwhelming.

vi Training, Staffing, Accommodation, Funding, etc

54 The scope for introducing, separately or collectively, some form of training programme for Council members and local representatives, possibly in conjunction with other organisations active in the consumer field, has already been mentioned. It is equally applicable to both structural options, as are most of the comments in the following paragraphs.

55 National and Regional Councils are served by a permanent staff often recruited or seconded from the industry concerned; their terms and conditions of employment are generally fixed by reference to that industry. Regional Secretariats service local committees, which have no staff of their own.

56 The number of staff varies considerably between NICCs even within the same industry. The possibility of a national staffing structure, more open recruitment and greater uniformity in pay and gradings requires close examination. There are obvious geographical and other obstacles to the establishment of a nation-wide service but interchange between NICC staff would promote the cross-fertilisation of ideas and experience and could help bring about a more consistent approach to the handling of common issues.

57 Because the NICC organisation relies on part-time members the Secretariats play a major role in determining both the overall efficiency of particular Councils and, in particular, the way in which complaints are handled. It is not to denigrate the work done by present staff to stress that the staff of NICCs must be as 'professional' as possible and that at the national level (particularly if the sectoral approach is adopted) pools of staff with legal, accountancy, economic and other skills are desirable. For Regional staff, training in complaints handling and in communication skills would seem appropriate. It does not necessarily follow that the NICCs would need to set up their own expensive training facilities.

58 Some rationalisation might be achieved through common occupation of premises and a pooling of facilities such as typing. Under the Sectoral NICC option it should be possible for regional bodies to share premises. Joint occupancy would assist the improvement of communications between the various NICCs mentioned earlier. Examination, possibly by the NICCs themselves, with some outside assistance, of the possibility of improving methods of handling paperwork, reducing and rationalising the production of annual reports, etc, would be profitable. The aim of such an examination would be threefold: to cut out waste; to promote effectiveness; and to increase public awareness of the NICCs' services. For example it might be desirable for the constituent Councils of the NICC covering one industry to dispense with separate regional reports without noticeable loss of regional autonomy, and concentrate upon making a single, more substantial, national report. At the other extreme, standardised complaint forms might be available at gas and electricity showrooms, post offices, stations etc for first stage complaint-making. National Councils, and particularly the Secretaries thereof, should regard the efficient operation of the Regional tier as a direct responsibility.

59 The NICCs are paid for by the taxpayer. They must be fully accountable, therefore, for the effective, economical and efficient use of the public money allocated to them. To this end, the Government will continue to exercise the necessary financial and other controls over the NICCs. This framework of control and accountability will be in line with the arrangements set out in *Non-Departmental Public Bodies: a Guide for Departments* (HMSO, October 1981).

vii Relationships with other bodies

60 One of the agreed aims of the *NCC* is the promotion of consumer representation in the nationalised industries. The NCC usually includes among its members individuals who,

while not representing the NICCs as such, are serving NICC Chairmen. There has grown up recently a measure of common thinking between the NCC and the NICCs at national level and some joint projects have been undertaken with individual NICCs. The NCC also provides some training facilities for individual consumer representatives, including NICC members. Ways in which the NCC might more consistently help the work of the NICCs deserve consideration.

61 There is scope for fostering closer contact and co-operation with the *CABx* both on casework and on training. Even in cases where the CABx have the greater expertise, early involvement of the appropriate NICC can be to the advantage of all parties, particularly where there is any threat of disconnection of gas or electricity supplies.

62 It is highly desirable that the Transport NICCs establish good working relationships with the appropriate consumer bodies dealing with London Transport, the PTEs and the airports, ie *LTPC,* the *TUACs* and *ACCs.* This might best be achieved by cross-membership between TUCCs and such bodies and by occasional joint meetings to discuss bus/rail or tube/air passenger interchange and similar issues of common interest.

63 Last, but by no means least, there is the question of relations with the *industries* themselves. The need for close working has already been stressed, but there remains the question whether it is desirable that the NICCs have representatives on industry boards, as Area ECC Chairmen currently sit on AEBs.

Scotland

64 In Scotland, the Secretary of State for Scotland is responsible for appointing the members of the Electricity Consultative Councils for the North and South of Scotland Districts. This mirrors the particular responsibilities which the Secretary of State for Scotland has for the electricity industry, where the Boards are organised to provide both generation and distribution of electricity.

65 Should reform without legislation prove to be the preferred option, then there will be no unique problems in its application to the NICC structure in Scotland. If however the sectoral NICC solution is favoured, then full account would have to be taken of the Secretary of State for Scotland's responsibilities for the electricity supply industry and transport. The possible development of a separate structure for the utilities in Scotland would have to be explored. Hitherto, for instance, the Scottish ECCs have not come under the umbrella of the Electricity Consumers' Council and their relationship to any GB body –

or a possible Scottish alternative – would have to be considered. It might be necessary to recognise that the solution best suited to Scottish needs may differ somewhat from the course adopted in England and Wales. The views of relevant Scottish organisations on the matters raised in this Consultative Document will be sought by the Secretary of State for Scotland.

Summary

66 In paragraph 29 we concluded that the NICCs are still needed but that reform is desirable. We have examined a number of issues – functions and priorities; powers; scope of industry coverage; structure; membership; training, staffing, accommodation, funding and the like; and relationships with other bodies. The two central points on which further consideration should be focussed are the structural framework of the NICCs and their working methods.

67 As regards the structural framework, the options are:

a *Limited reform without legislation.* This could involve a modest reduction in the number of existing NICCs but would not change their statutory responsibilities or the fundamental structure of the present system which is based on separate arrangements for each of the individual industries concerned.

b *More substantial reform, which would require legislation,* designed to reduce significantly the number of individual NICCs (say from 44 to 17) and to concentrate their responsibilities in a new structure focussed on three broad industry groups covering energy, communications and transport. There might also be some changes in the NICCs' statutory responsibilities and some extension to the scope of the NICC machinery.

The Government would welcome views on these options. For example, would more concentrated (and potentially more influential) NICC machinery be too remote from the industries with which it dealt? Are there sufficient practical benefits to justify standardisation of the NICCs' statutory responsibilities? Should the industry coverage of the NICCs be widened, or are the interests of consumers best served in other ways?

68 Improvements in working methods would be possible under either structural option. The Government suggests these improvements might include: a greater emphasis on efficient complaints handling; wider use of the 'value for money audit' approach that POUNC have been developing; a willingness to experiment with less rigid forms of local representation; better communication between and within NICCs; more effective self-promotion by NICCs and closer liaison with bodies such as the NCC, CABx and TUACs; and more systematic training of staff and members. Views would be welcome on the scope for improvement (not necessarily involving legislation) in these and other areas.

EXISTING ARRANGEMENTS FOR REPRESENTING NATIONALISED INDUSTRIES' CONSUMERS

1 GAS

i There is a National Gas Consumers' Council (established under the Gas Act 1972) together with 12 Regional Gas Consumers' Councils (established under the Gas Act 1948) * which match the operating regions of the British Gas Corporation. There is no statutory limit on the number of Regional Councils or their geographical coverage, save that there must be separate Councils for Scotland and Wales. The Secretary of State may vary the number of Regional Councils by direction. Each Regional Council has a duty to appoint committees or individuals to be local representatives; such appointments are made in accordance with a scheme, which is subject to the approval of the Secretary of State. There are at present 63 local committees.

ii Appointments to the National and Regional Councils are made by the Secretary of State after consultation with such bodies as he thinks fit. In the case of the Regional Council, not less than two-fifths nor more than three-fifths of the members must be serving members of local authorities. The remainder are appointed to represent commerce, industry, labour and the general interests of gas consumers. Council Chairmen are appointed on a part-time basis (notionally 2 days per week) and are paid £6,025 per annum (National) and £4685 per annum (Regional). Deputy Chairmen and other members are unpaid, but may claim travel and subsistence and loss of earnings allowances.

iii The statutory functions and obligations of the Councils are:

a to consider any matters affecting the interests of gas consumers (generally or a particular class) including supply of gas or gas fittings, variation of tariffs and provision of other services and facilities, which are the subject of a report or representation made by one or more consumers to the Regional Council or by the Regional Council to the National Council *or* which appear to them to be matters to which consideration ought to be given;

b where action appears to them requisite on such matters, to notify their conclusions to the British Gas Corporation;

c to consider and report to the British Gas Corporation on any such matter referred to them by the Corporation;

d in the case of the National Council, to consider and report to the Secretary of State on any such matter referred to them by the Secretary of State, *or* in the case of Regional Councils, to consider and report to the National Council on any such matter referred to them by the National Council.

iv The British Gas Corporation is statutorily obliged:

a to inform the National Council of its general plans and arrangements for exercising and performing its functions in relation to the supply of gas and in particular any proposal to vary a tariff;

b to consider any reports or representations made by the Councils.

v After consultation with the Corporation, the National Council may make representations to the Secretary of State who may issue directions to the Corporation thereon.

vi The effect of these statutory provisions is that the Councils have a role in handling the complaints and enquiries of individuals, as well as in considering policy issues on behalf of consumers generally. In 1980/81 the Councils collectively dealt with 28,000 complaints. A little over one third (37%) related to sales and servicing of appliances; a further 13% to problems with central heating systems; disputed gas accounts and other charging issues accounted for 36%. On the policy side, the National

*Now governed by the 1972 Act

BRITISH GAS & GCC REGIONS

1 SCOTTISH
2 NORTHERN
3 NORTH WESTERN
4 NORTH EASTERN
5 WALES
6 WEST MIDLANDS
7 EAST MIDLANDS
8 EASTERN
9 SOUTH WESTERN
10 SOUTHERN
11 NORTH THAMES
12 SOUTH EASTERN

Council has recently dealt with gas tariff increases, long term pricing strategy, improvements in appliance quality control, energy conservation, wider sale of energy stamps and the code of practice on disconnections for non-payment of bills. The Regional Councils provide an input to National Council consideration of policy issues and also deal with regional matters, such as closure of show-rooms, keeping appointments for meter readings and service visits, supplies of spare parts and monitoring local implementation of the disconnections code of practice.

vii More detailed information on the resources and workload of the Councils is given at Table 2 at the end of this Annex.

2 ELECTRICITY

i There is a non-statutory Electricity Consumers' Council for England and Wales (established in 1977), together with 12 Area Electricity Consultative Councils (established under the Electricity Act 1947 as amended by the Electricity Act 1957); in Scotland there are two Consultative Councils, one each for the South of Scotland Electricity Board and the North of Scotland Hydro-Electric Board (established under the Electricity Act 1947 as amended by the Electricity Reorganisation (Scotland) Act 1954). Unlike the Regional Gas Consumers' Councils, the Electricity Consultative Councils are statutorily linked to the Area Electricity Boards, on the basis of one Council for each Board.

ii Each of the Consultative Councils has a duty to appoint committees or individuals to serve as local representatives; such appointments are made in accordance with a scheme which is subject to the approval of the Secretary of State. The English and Welsh Consultative Councils have, between them, 64 local committees; the Scottish Councils have 14.

iii Appointments to the Electricity Consumers' Council and to the English and Welsh Consultative Councils are made by the Secretary of State for Trade. Appointments to the Scottish Consultative Councils are made by the Secretary of State for Scotland. In the case of the Consultative Councils, not less than two-fifths nor more than three-fifths of the members must be drawn from panels of persons nominated by local authority associations. The remainder are appointed to represent commerce, industry, labour, agriculture and the general interests of electricity consumers. Council Chairmen are appointed on a part-time basis (notionally 2 days per week) and are paid £6,025 per annum (Consumers' Council) and £5,620 per annum (Consultative Councils); a Consultative Council Chairman is an ex-officio member of his Area Electricity Board. Deputy Chairmen and other members are unpaid, but may claim travel and subsistence and loss of earnings allowances, as also may local committee members.

iv The statutory functions and obligations of the Consultative Councils are:

a to consider any matter relating to the distribution of electricity in the area, including variation of tariffs and the provision of new or improved services, being the subject of a representation made to them by consumers (existing or prospective) in that area *or* which appears to them to be a matter to which consideration ought to be given;

b where action appears to them requisite on such matters, to notify their conclusions to the Area Electricity Board or to the Central Electricity Generating Board;

c to consider and report to the Area or Generating Board on any such matter referred to them by the Board.

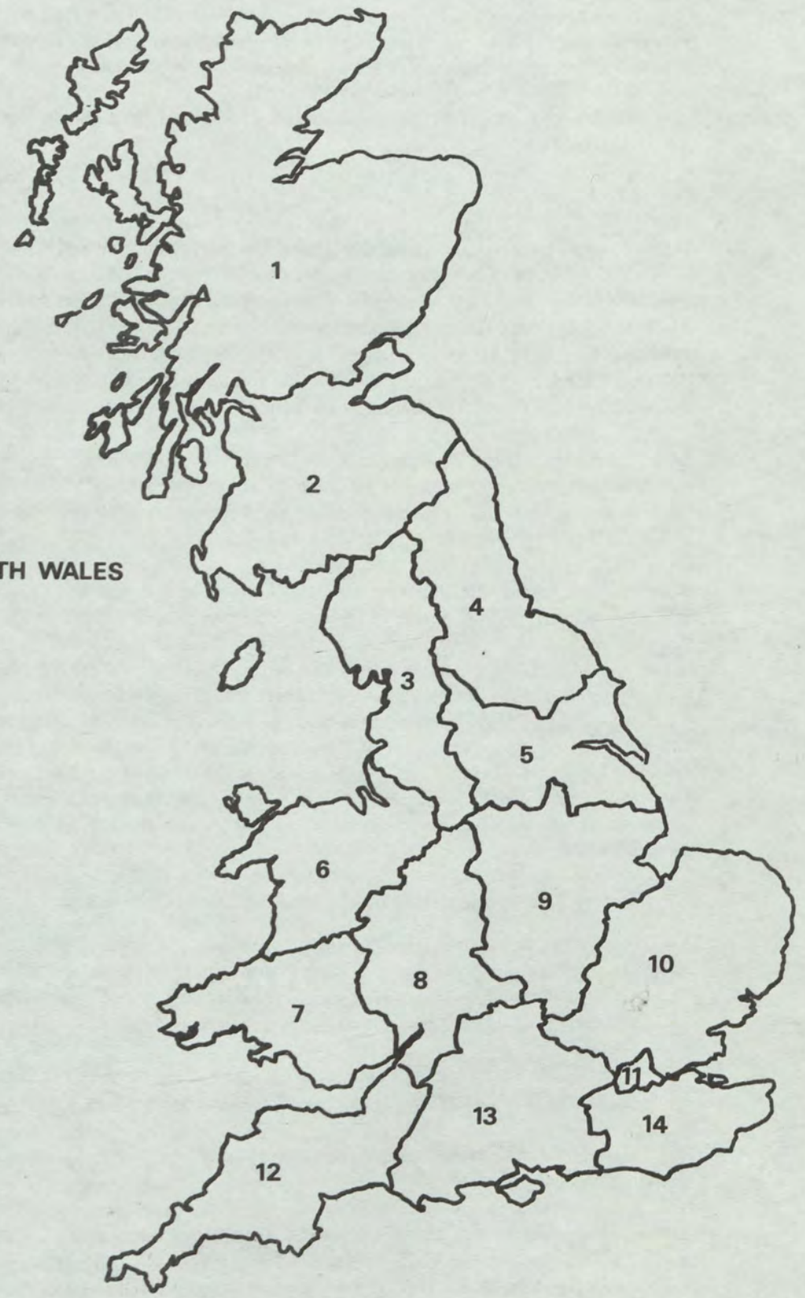
v The statutory obligations of the Boards and the Electricity Council are:

a that each Area Board shall inform the Consultative Council of its general plans and arrangements for exercising and performing its functions and the Council may make representations to the Board thereon;

AREA ELECTRICITY BOARDS AND ECCs

REGIONS

1 NORTH SCOTLAND
2 SOUTH SCOTLAND
3 NORTH WESTERN
4 NORTH EASTERN
5 YORKSHIRE
6 MERSEYSIDE & NORTH WALES
7 SOUTH WALES
8 MIDLANDS
9 EAST MIDLANDS
10 EASTERN
11 LONDON
12 SOUTH WESTERN
13 SOUTHERN
14 SOUTH EASTERN



b that each Area Board and the Generating Board shall consider any conclusions, reports or representations notified by a Consultative Council and that Council may, after consultation with the relevant Board, make representations to the Electricity Council on matters arising thereout;

c that, where it appears to them that a representation made under b above discloses a defect in the general plans and arrangements of a Board, the Electricity Council may, after consultation with the Consultative Council and the Board, give such advice to the Board as they may think fit for remedying the defect.

vi A Consultative Council may, after consultation with the Electricity Council, make representations to the Secretary of State, who may, after consultations, give directions to a Board for remedying any defect in its general plans and arrangements that may have been disclosed in the representations from the Consultative Council.

vii The position in Scotland is as set out above, with the difference that there is no intermediary process of making representations to the Electricity Council. References to the 'Generating Board' are not appropriate to Scotland, since the two Scottish Boards both generate and distribute electricity.

viii The terms of reference of the Electricity Consumers' Council are:

a to consider any matter affecting the interests of electricity consumers in England and Wales (generally or of a particular class) including supply of electricity, variation in tariffs, supply of goods and fittings, provision of other services and facilities, which has been the subject of a report or representation by a Consultative Council *or* which appears to them to be a matter to which consideration ought to be given;

b where action appears to them requisite on such matters, to notify their conclusions to the Electricity Council;

c to consider and report to the Electricity Council on any matter referred to them by the Electricity Council;

d to consider and report to the Secretary of State on any matter referred to them by the Secretary of State;

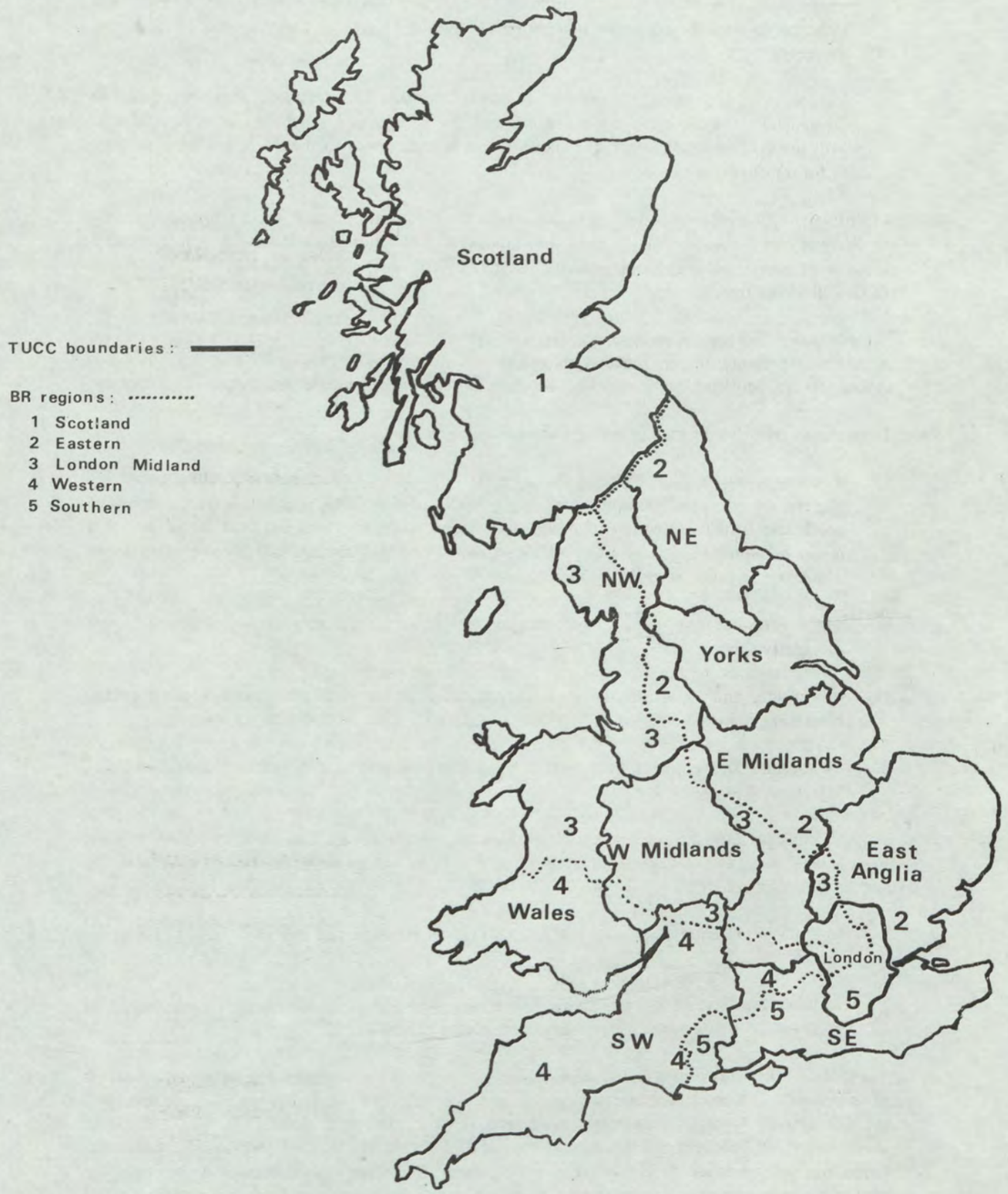
e to consider any information given to them by the Electricity Council with regard to their general plans and arrangements for exercising and performing their functions in relation to the supply of electricity;

f to make representations to the Electricity Council in respect of any such plans and arrangements;

g to make representations, after consultation with the Electricity Council, to the Secretary of State on any matters which have been considered by them.

ix The effect of these provisions is that the Councils have a role in handling the complaints and enquiries of individuals, as well as in considering policy issues on behalf of consumers generally. In 1980/81, the Consultative Councils collectively dealt with some 21,000 complaints. Over half (60%) were about electricity accounts and similar matters and 36% about retailing and contracting services etc. Given the independence of the Scottish Boards from the Electricity Council and the degree of autonomy enjoyed by the English and Welsh Area Boards, the Consultative Councils consider a broad range of policy issues from major questions of pricing and tariff changes to very specific, local operational matters. Examples include: easy payment schemes, debt collection procedures, maximum resale price of electricity, service and repair charges, billing frequency, meter-reading schemes and

TUCC Boundaries & BR Regions



monitoring the implementation of the code of practice on disconnections. The role of the Electricity Consumers' Council is to represent the interests of all users in England and Wales at the national level to the Electricity Council and Central Electricity Generating Board. Issues dealt with recently by the Council include: pricing strategy, energy conservation, generating capacity and plant margins, 'pay-as-you-go' facilities and reviewing the code of practice on disconnections.

x More detailed information on the resources and workload of the Councils is given at Table 2 at the end of this Annex.

3 COAL

i There is a Domestic Coal Consumers' Council (established under the Coal Industry Nationalisation Act 1946); it is a national body, with no regional sub-structure. Its members are appointed by the Secretary of State, after consultation with bodies representative of consumers of coal, coke and manufactured fuel and bodies representative of persons engaged in the sale or supply of solid fuel for domestic purposes. The Chairman is appointed on a part-time basis (notionally one day per week) and is not paid a salary, but receives a daily attendance allowance of £26.00. The Deputy Chairman and other members are unpaid, but may claim travel and subsistence and loss of earnings allowances.

ii The Council's statutory functions are:

> to consider any representations made to them by domestic consumers on the sale or supply of coal, coke or manufactured fuel *or* any matter which appears to the Council to merit consideration.

It is able to report and make recommendations to the Secretary of State for Trade or for Energy on any matter within its field of competence.

iii These statutory functions are less extensive than those of other NICCs; the Domestic Coal Consumers' Council's work is, in practice, rather different. It takes up policy issues, related to the cost, quality and availability of solid fuel, but it is less involved than other NICCs in complaints handling. The majority of complaints about solid fuel which are not directly resolved between customer and supplier are handled by the 11 regional panels of the Approved Coal Merchants Scheme (ACMS). The ACMS brings together the National Coal Board, wholesalers and retailers of coal, together with a representative of the Domestic Coal Consumers' Council. The ACMS defines minimum standards to be upheld by coal merchants and deals with customer complaints. In addition to the 11 regional panels, there is a National Panel on which the Chairman of the Domestic Coal Consumers' Council sits as assessor. In the last resort, the Domestic Coal Consumers' Council can arbitrate when agreement cannot be reached between the ACMS and a complainant.

4 RAIL AND FERRY TRANSPORT

i There is a Central Transport Consultative Committee with 11 Area Transport Users' Consultative Committees (established under the Transport Act 1947, but now governed by the Transport Act 1962 as amended). These Committees cover transport and other services and facilities provided by British Rail, together with the internal ferry services of the Scottish Transport Group. There are no local committees.

ii There is no statutory upper or lower limit on the number of Area Transport Users' Consultative Committees, except that there must be separate Committees for Scotland and Wales. Nor do the present boundaries of the areas served by the Committees match the boundaries of British Rail's five operating Regions.

iii Appointments to the Committees are made by the Secretary of State. There are no statutory limits on the size of the Area Committees. The Central Committee consists of a Chairman, the Chairmen of

the Area Committees and up to six other members. Chairmen are appointed on a part-time basis (notionally 1 day per week) and are paid £3,350 per annum (Central Committee) and £2,675 per annum (Area Committees). Other members are unpaid but may claim travel and subsistence and loss of earnings allowances.

iv The statutory functions of the Central Transport Consultative Committee are:

a to consider and, where it appears desirable, make recommendations about any matter, *except charges*, affecting the services and facilities provided by the Board, which has been the subject of representations to the Committee *or* which the Secretary of State has referred to it *or* which the Committee decide they should consider;

b to submit a report on any such matter to the Board and to the Secretary of State.

The Secretary of State may, on receipt of a recommendation from the Committee, give the Board such directions as he thinks fit with respect to the matters referred to in the recommendation.

v The statutory functions of the Area Transport Users' Consultative Committees are essentially the same as those set out above, except that the Area Committee must also consider objections by users to proposals to withdraw rail passenger services from any line or station. The Scottish Committee can also consider proposals for withdrawal of services by the Scottish Transport Group in respect of internal ferry services.

vi The Committees deal both with complaints by individuals and with more general policy issues. But the emphasis of their work is very much on policy; the Committees collectively dealt with less than 2,000 complaints from individuals in 1980. Policy issues considered recently by the Central Committee have included: train and station catering services, refurbishment of rolling stock, reduced fare policy, train punctuality, carriage of accompanied bicycles and conditions of carriage of express parcels. The Area Committees have considered revisions to timetables, station facilities, car-parking facilities, passenger information services and county public transport plans.

5 POSTS AND TELECOMMUNICATIONS

i There is a Post Office Users' National Council, with separate Country Councils for Scotland and Wales (all three bodies were established by the Post Office Act 1969). There is no structure of regional councils or local committees, but the Councils do receive advice and assistance from, and make a small financial contribution towards, the network of nearly 200 Post Office Advisory Committees, which are voluntary and non-statutory bodies, often under the sponsorship of Chambers of Commerce or Trade or of local authorities.

ii Appointments to the Councils are made by the Secretary of State after consultation. The National Council consists of a Chairman, the Chairmen of the Country Councils and up to 29 other members. The Country Councils consist of a Chairman and up to 24 other members. Council Chairmen are appointed on a part-time basis (notionally 2 days per week for the National Council and 1 day per week for the Country Councils) and are paid £6,025 per annum (National Council) and £26.00 per day's attendance (Country Councils). Other members are unpaid, but may claim travel and subsistence and loss of earnings allowances as appropriate.

iii The duties of the National Council are:

a to consider any matter relating to the services provided by the Post Office and British Telecommunications in the UK which is the subject of a representation made to the Council by, or on behalf of, a user *or* which appears to the Council to be one to which it ought to give consideration;

b if it considers that action ought to be taken with respect to any such matter, to give notice of that fact and of the action that the Council thinks should be taken to the Secretary of State and to the Post Office or British Telecommunications as appropriate;

c to consider and report on any matter relating to Post Office or British Telecommunications services which is referred to it by the Secretary of State or the Post Office or British Telecommunications;

d to consider any matter referred to it by a Country Council and to transmit to the Secretary of State, the Post Office or British Telecommunications, as appropriate, and the Country Council its observations thereon.

iv The duties of Country Councils are as at a–c above but restricted to services in that Council's area of the UK.

v The Post Office and British Telecommunications are obliged to consult with the National Council before putting into effect any major proposals relating to any of their main services so as to affect users.

vi The Councils have both a complaints handling and a policy role. The vast majority of complaints (16,800 out of 18,800 in 1980/81) are dealt with by the National Council. On the policy side, the National Council has recently involved itself in questions of postal and telecommunications tariff increases, postal delivery arrangements, relaxation of Post Office monopolies, London postal system problems, delays in providing or repairing telephones and the introduction of Codes of Practice on service quality and compensation. The Country Councils deal with issues specifically related to their areas, such as internal mail collection and delivery arrangements, use of air services for bulk mail transport, direct despatch of overseas mail, provision of telephone kiosks and shared-line policy.

vii More detailed information on the resources and workload of the Councils is given at Table 2 at the end of this Annex.

Note: The bodies discussed in Sections 1–5 above are those that are normally classed as the Nationalised Industry Consumer Councils; Sections 6–8 below look at the arrangements in sectors which are not covered by such Councils

6 BUS TRANSPORT

i Bus services are provided by the National Bus Company (NBC), the Scottish Bus Group (SBG), the London Transport Executive (LTE), the Passenger Transport Executives (PTEs), municipal operators and private sector companies. The SBG is a part of a nationalised industry, the Scottish Transport Group. The LTE is a public authority, established by the Transport (London) Act 1969, with a Chairman appointed by the GLC and members appointed by the GLC in consultation with the Chairman; it provides passenger transport (bus and tube) within, to and from Greater London. The PTEs were set up under the Transport Act 1968 and are jointly responsible with the Passenger Transport Authorities (PTAs) for providing co-ordinated public transport in the 6 English Metropolitan Counties and in Greater Glasgow. The PTAs (the Metropolitan County Councils in England and Strathclyde Regional Council in Scotland) appoint the members of the PTEs and have financial and policy control. The PTEs operate some services directly, but also enter into agreements with the NBC and British Rail. There are 51 municipal bus operators, ie services directly controlled by local authorities.

ii In 1979, the public sector operators provided nearly all the stage services and had a substantial share of the express market. This could change, given the greater degree of competition allowed by the Transport Act 1980. The lifting of restrictions on express services in particular has already stimulated

an increase in private sector activity in this market. The market shares of the various operators of stage and express bus services are shown below; the figures are for 1979 and are quoted on three different bases:

a by passenger journeys; b by vehicle kilometres; c by passenger receipts.

TABLE 1

Operator	Share of Stage Service Mkt			Share of Express Service Mkt		
	a %	b %	c %	a %	b %	c %
LTE	19	12	15	–	–	–
PTEs	31	22	27	–	1	1
Municipals	15	11	12	2	–	–
NBC	27	41	35	21	51	53
SBG	5	8	8	2	7	9
Total Public	97	94	97	25	59	63
Private Operators	3	6	3	75	41	37
All Operators	100	100	100	100	100	100

The entry ' – ' means nil or negligible, ie less than ½%

iii Although there is no single consumer council or similar body covering all bus users, there is a range of bodies which can represent user interests.

Local Authorities

iv County Councils* have statutory responsibilities to co-ordinate transport policy in their areas. Shire Counties are required, under the Transport Act 1978, to prepare public transport plans, and in the process are required to consult among others:

> 'transport user organisations and others appearing to the County Council to be especially concerned with public passenger transport matters'.

No such requirement is placed on Metropolitan Counties, but each of these counties, in its role as PTA, is responsible for the policies and budgets of the PTE. Under the 1968 Act the PTA and PTE have a joint duty to secure a properly integrated and efficient system of public passenger transport for their area. County Councils also have a right to make representations to Traffic Commissioners (see below) in respect of proposed stage carriage services and to appeal against decisions of the Commissioners. Local authorities are therefore involved in a continuous dialogue with both bus operators and the public.

* In Scotland – the Regional and Island Councils

Transport Users Advisory Committees (TUACs)

v These are non-statutory bodies set up in Metropolitan Counties* by the PTA and PTE. Each English PTE has at least one TUAC. Their terms of reference and membership vary. Their primary role is to consider and advise on local policy affecting public passenger transport, although they do receive representations from users. Membership largely comprises County or District Councillors, but other bodies are represented, eg the Transport Users' Consultative Committee is represented on the West Midlands TUAC.

County Passenger Advisory Committees (CPACs)

vi The CPACs, non-metropolitan counterparts to the TUACs, were proposed in the White Paper on the Nationalised Industries (Cmnd. 7131), published in March 1978. The SCNI, in its pre-legislative hearings in 1979, recommended that CPACs should be established for every county by legislation. This was not taken up and, as far as is known, no counties have yet set up CPACs.

London Transport Passengers Committee (LTPC)

vii The LTPC covers the whole of LT and is the Greater London equivalent of a TUAC; the main differences are: that the LTPC is a statutory body, that it is debarred from considering either fares or permanent closure of stations (the latter being a matter for the London TUCC) and that its membership is more widely drawn than most TUACs. Of its 28 members, 26 are GLC appointees and 2 are co-opted by the LTPC; of the GLC appointees, 9 are London Borough nominees, 2 are GLC nominees and 14 are drawn from names submitted in response to public advertisement. There has, in the past, been close co-ordination between the LTPC and the London TUCC, but the position is less satisfactory now that the Chairman of the LTPC no longer sits on the TUCC.

Traffic Commissioners

viii The statutorily independent Traffic Commissioners are responsible for administering the bus licensing system in the 11 traffic areas covering England, Scotland and Wales. Although their powers were reduced by the Transport Act 1980, they remain responsible for ensuring that operators (whether providing long distance or local services) are competent to run and maintain safe vehicles. They also retain regulatory control, through road service licensing, of the provision of 'stage carriage' services outside London (where other arrangements apply). In considering whether or not to grant a road service licence, Traffic Commissioners are required to take into account the implications of a particular service for the public interest, and to consider any relevant objections or representations, including ones from consumer representatives or individuals. The Commissioners also deal with a wide range of customer complaints in cases where the passenger has not received satisfaction from the operator, covering such matters as safety of vehicles, reliability of services and behaviour of crews.

The Transport Users' Consultative Committees

ix For two years after the closure of a rail service, the TUCCs have 'oversight' of replacement bus services. They have no other role in respect of buses.

7 AVIATION

Air Transport Users Committee (AUC)

i The AUC was established by the Civil Aviation Authority (CAA) in 1973, both to assist it in its duty to safeguard the interests of airline users and to handle complaints against airlines by individual

* In Scotland – Strathclyde Region

travellers. Although it was originally closely associated with the CAA, not least by common chairmanship, it was decided in 1978 to make the AUC more autonomous, with its own chairman, non-CAA membership and separate offices. The CAA continues to appoint and finance the AUC, but this arrangement is not directly comparable with the 'in house' advisory groups that we discuss elsewhere, because the CAA is primarily a regulatory body for the aviation sector, rather than a nationalised industry. The AUC is not a statutory body, but does have statutory backing in the sense that the Civil Aviation Act 1971 imposed on the CAA a duty to further the reasonable interests of air transport users, in which task the AUC assists it. There is, therefore, some similarity between the status of the AUC and that of the Electricity Consumers' Council. However, the other facet of AUC work, as watchdog of the airlines, is very different from that of the other NICCs, in that British Airways is the only UK public sector body amongst the airlines and that is, in any case, to be privatised in due course.

Airport Consultative Committees (ACCs)

ii The British Airports Authority (BAA), which is responsible for Heathrow, Gatwick, Stansted and the four Scottish airports, is obliged by Section 2(8) of the Airports Authority Act 1975 to provide adequate consultation facilities for aerodrome users, local authorities and representatives of local interests. The ACCs are financed and their chairmen appointed by the BAA. Their remit goes rather wider than that of a purely user body, since it covers eg the interests of airlines (in their role as airport users) and the environmental impact of airports. In response to a perceived need for a purely user voice, Passenger Service Groups have been established, which deal specifically with those aspects of access to, and facilities at, BAA airports which directly affect passengers. Under Section 8(1) of the Civil Aviation Act 1968, the Secretary of State can designate airports for consultative purposes; this has been done in respect of, for example, the large local authority run airports at Luton, Manchester and Birmingham. These airports, too, have ACC arrangements involving representation of airport users.

British Airways

iii As well as coming (in common with other airlines) under the auspices of the AUC, British Airways has its own internal consumer representation system.

8 WATER

England and Wales

i The Water Act 1973 established, with effect from 1 April 1974, ten Water Authorities (WAs): 9 English and 1 Welsh. The Government's original intention had been to have one or more consumer consultative councils for each WA, made up of representatives of local authorities, domestic and industrial users, farmers, etc. In the event, it was decided not to proceed with this but instead it was arranged that a majority of WA members should be appointed by local government. Rather than being small management bodies, as at first envisaged, some WAs have large memberships (up to 62 on the largest).

ii The intention in 1974 was that there would be three strands of consumer representation:

the local authority representatives on the WA itself would, amongst other things, express the consumer's voice;

the officers of the WA would handle individual complaints;

WAs would form local advisory committees, composed of WA representatives and others with an interest in water provision.

iii The Act left formation of local advisory committees to the discretion of the WAs, and only one has elected to set up a formal system of committees for each of its divisions.

iv There has been pressure for reform of this structure. The NCC pressed for the creation of a National Water Consumers' Council and have also pressed for the inclusion of consumer representatives on WAs. The MMC report on Severn-Trent WA recommended a reduction in the size of the Authority's membership and set out criteria for effective consumer representation through a separate consumer body.

v The Secretary of State for Wales has laid an Order before Parliament reducing the membership of the Welsh Water Authority from 35 to 13, and removing the power of local authorities to appoint members to the Authority. The Secretary of State will himself appoint 4 members to represent their interests. He is also to ask the Authority to set up five local consumer advisory committees covering district council areas approximating to the various WWA divisions or combinations of them. The various consumer interests will be represented on these committees, the membership and functions of which will be laid down in guidelines drawn up by the Welsh Office in consultation with the interests concerned. These arrangements will be reassessed in the light of the outcome of this review.

vi In some areas, water supply (but not other water services – sewage, land drainage, etc) is carried on for the WA by one of the 28 statutory water companies; there is no consumer representation provision in respect of these companies.

Scotland

vii The position in Scotland is different. There are no WAs; water provision, sewage disposal, etc, remain direct responsibilities of local authorities. There appears to be general satisfaction with these arrangements.

TABLE 2: DATA ON EXISTING NICC STRUCTURE

	Cost to Central Govt in 1980/81 £000 *	Members: Statutory limits‡	Members: In post at 31 March 1981‡	Staff: Complement	Number of local c'ttees	Number of complaints received †	Meetings per annum
Domestic Coal Consumers' Council	82	No limits	16	2	N/A	N/A: dealt with by ACMS	4
National Gas Consumers' Council	)	20 – 30	25	)	N/A	N/A	6
Scottish GCC	)	20 – 30	27	)	5	2,871	4
Northern GCC	)	20 – 30	21	)	4	2,624	4
North Eastern GCC	)	20 – 30	21	)	4	866	4
North Western GCC	)	20 – 30	22	)	4	3,779	4
Wales GCC	)	20 – 30	22	)	8	1,666	4
West Midlands GCC	) 1500	20 – 30	24	) 103	6	2,921	6
East Midlands GCC	)	20 – 30	26	)	6	1,705	4
Eastern GCC	)	20 – 30	24	)	4	3,001	4
North Thames GCC	)	20 – 30	24	)	4	2,896	5
South Eastern GCC	)	20 – 30	25	)	4	3,279	4
Southern GCC	)	20 – 30	24	)	6	1,232	4
South Western GCC	)	20 – 30	21	)	8	1,191	3
Electricity Consumers' Council	)	No Statute	24	)	N/A	N/A	7
North Eastern ECC	)	20 – 30	26	)	7	545	6
Yorkshire ECC	)	20 – 30	24	)	7	1,571	4
North Western ECC	)	20 – 30	24	)	8	3,094	6
Merseyside & N Wales ECC	)	20 – 30	22	)	6	1,052	4
South Wales ECC	)	20 – 30	15	)	4	1,829	5
Midlands ECC	) 1130	20 – 30	21	) 74	5	1,476	6
East Midlands ECC	)	20 – 30	26	)	6	812	4
Eastern ECC	)	20 – 30	23	)	4	2,555	6
London ECC	)	20 – 30	17	)	5	2,613	7
South Eastern ECC	)	20 – 30	24	)	4	1,132	4
Southern ECC	)	20 – 30	25	)	4	1,597	4
South Western ECC	)	20 – 30	24	)	4	838	4
ECC for South of Scotland	) 139	20 – 30	30	) 8	9	1,433	5
ECC for North of Scotland	)	20 – 30	29	)	5	582	5
Central Transport Consultative Committee	)	See text	14	)	N/A	N/A	4
Scotland TUCC	)	No limit	14	)	N/A	309	4
Wales TUCC	)	No limit	12	)	N/A	104	4
North East TUCC	)	No limit	13	)	N/A	106	4
North West TUCC	)	No limit	17	)	N/A	228	6
Yorkshire TUCC	) 486	No limit	11	) 31	N/A	151	5
East Midlands TUCC	)	No limit	14	)	N/A	85	4
West Midlands TUCC	)	No limit	13	)	N/A	81	4
East Anglia TUCC	)	No limit	11	)	N/A	69	5
London TUCC	)	No limit	19	)	N/A	481	5
South East TUCC	)	No limit	14	)	N/A	128	4
South West TUCC	)	No limit	16	)	N/A	137	4
Post Office Users' National Council	)	Up to 30	20	)	N/A	16,797	8
POUC for Scotland	) 318	Up to 25	20	) 23	N/A	1,275	4
POUC for Wales	)	Up to 25	19	)	N/A	750	6

* Figures for cost to Central Government are estimates of outturn; they include expenditure by the Department of Trade, Property Services Agency and the Treasury Valuer.

† Figures for complaints handled are for the latest annual report period of the NICC concerned, and exclude those dealt with personally by voluntary members.

‡ National Chairmen and, where appropriate, Regional Chairmen are counted as members of National Councils.

REFORM WITHIN THE EXISTING STATUTORY FRAMEWORK

1 This Annex identifies those changes which are suggested in Annex C which could be made *without* new legislation. There would be no NICC coverage of water or buses.

First Tier: The National Councils

2 The five separate National Councils would continue as at present although possibly with membership towards the lower end of any statutory limits as follows:

NGCC	20–25
ECC	15–20
DCCC	c 15
CTCC	7–13
POUNC	15–20
TOTAL	c 85

3 Although the Councils would be separately staffed, the possibility of their sharing accommodation and support services could be examined. Other forms of inter-Council contact, such as programmes of Chairmen's meetings, would also be promoted. No increase in staff numbers is envisaged.

Second Tier: Regional Councils

4 Given the terms of the existing legislation, the second tier structure for the electricity and posts and telecommunications NICCs would remain as at present. This constraint, however, does not apply to the TUCCs or the Regional GCCs.

5 As under the 'Sectoral' option, the boundaries of the TUCCs could be matched more closely to the BR Regions. This would reduce their number from 11 to 6; the areas of coverage would be as described at Table 3. Although the geographical coverage of each of the English TUCCs would be doubled, there appears to be no case for larger and less wieldy memberships of Councils. The size of the secretariats of the English TUCCs would vary, but there would be no overall increase in staff numbers.

6 The number of Regional GCCs in England could be reduced from 10 to 4, but they would probably not have the same geographical coverage as the 'Utilities' NICCs shown in Table 3. A more likely division would be:

New GCC Area	BGC Regions covered	Location of GCC Headquarters
Scotland	Scotland	Edinburgh
Wales	Wales	Cardiff
North England	Northern N Eastern N Western	Manchester
Midlands	E Midlands W Midlands	Birmingham
S E England	Eastern N Thames S Eastern	London
S W England	Southern S Western	Bristol

As with the TUCCs, the size of the individual GCCs and the overall staff numbers should remain virtually unchanged.

Relationships between the First and Second Tiers

7 The proposals in paragraphs 13 and 14 of Annex C do not require legislation and could be implemented under this option just as well as under the 'Sectoral' NICC option. However, they would be more relevant to the NGCC and CTCC than to the unreformed ECC.

Third Tier: Local Representation

8 The need for local representation for gas and electricity, to provide grass roots contact with consumers, is not in question. The existing system of committees, however, is considered to be over elaborate and wasteful in terms of the voluntary effort being provided. Some reappraisal is required.

9 The new GCCs in England would in any case need to submit new schemes for local representation. Some reform would certainly be needed, since retention of the existing committee structure would lead to an unworkably large number of committees – 12 to 14 per region.

10 The Scottish and Welsh GCCs, together with all the Area ECCs, could be invited to reappraise their own schemes.

11 The different approaches for local representation described in paragraphs 19–21 of Annex C would be equally appropriate to this option.

Functions, priorities and controls

12 Although the non-legislative option would not offer the opportunity to bring the governing statutes of the NICCs closer into line, it would be desirable for the Government to issue guidance on the ways in which it believed NICC performance could be improved: eg by use of the 'customer audit' approach, by more widespread training, more effective complaints records, etc.

13 It would also be possible to bring the framework of control and accountability of the NICCs into line with the arrangements set out in *Non-Departmental Public Bodies: A Guide for Departments.*

'SECTORAL' NICCS

1 This Annex describes a possible sectoral NICC structure, ie the second option discussed in paragraphs 48–51. It would permit the inclusion of the National Bus Company, the Scottish Bus Group and the Water Authorities.

First Tier: The National Councils

2 There might be three National Councils:

A 'Utilities' Council	covering gas, electricity and coal and possibly water; with perhaps 20–30 members and a staff of about 25
A 'Transport' Council	covering rail and ferries and possibly the nationalised bus operators; with a membership of 15–20 and some 15 staff
A 'Communications' Council	covering the Post Office and British Telecommunications; with say 15–20 members and 20 staff.

3 The staff shown ought to be sufficient to enable each National Council to employ a small pool of professional personnel (with accountancy, economics, statistics and legal expertise), capable of advising the Regional Councils and of undertaking research.

4 Where practicable the Councils would share accommodation and support services; where not, they would encourage other close contacts. At the top, this might take the form of a regular programme of meetings for the Chairmen and Deputy Chairmen, analogous to those of the Nationalised Industries Chairmen's Group; also possibly involving the Chairman of the NCC.

5 Appointments to the National Councils (and to Regional Councils) would continue to be made by Ministers. The objective would be to obtain a mix of members with specialist interests in individual industries with nationalised industry affairs as a whole and with consumer affairs generally. Members would, of course, be of the standing necessary to maintain a policy dialogue with Board Members and senior management of the industries. Regional Council Chairmen could continue to be ex-officio members of National Councils. The workload of the National Chairmen and members would be greater than at present; unlike the present situation, some part-time paid Deputy Chairman might be needed.

Second Tier: The Regional Councils

6 The 'Utilities' and 'Transport' NICCs might each have four English Regional Councils together with Scottish and Welsh Councils. The regions could be defined by reference to the industries' regional responsibilities rather than by precise geographical boundaries of their own. Details of a possible regional scheme are shown in table 3.

7 The new Regional Councils, too, would have a heavier workload. There would almost certainly need to be specialisation within the Councils. Thus in addition to regular meetings of the full Council, 'specialised' members (probably supported by third tier members – see paragraph 19 below) would probably need to meet Regional Board members and senior regional management of their industries regularly, say quarterly. Even if a Council worked mainly through sub-committees a NICC region covering possibly 3 BGC regions, 3 Electricity Boards and 2 WAs (as might England North and East) would require both a substantial total Council membership and a considerable time commitment from each member. Assuming a Regional Council membership of about 20, members would probably have to devote at least 1½ days a month to NICC business. The burden on Regional Council Chairmen would be greater and on the 'Utilities' Chairmen almost certainly more than the present notional 2 days a week.

8 The 'Communications' NICC is less likely to require a full Regional Council structure. This is partly because both posts and telecommunications are industries where cost and quality of service are determined largely by the effectiveness of the total system; and partly because of the existence of the POACs. The POUCs for Scotland and Wales appear to have a specialized country role and would be maintained.

9 The numbers of staff needed are more difficult to forecast,particularly for the 'Utilities' NICC: they would depend on the volume of complaints, the degree of staff involvement in complaints handling, and the secretariat support needed by second (and, possibly, third) tier committees. Assuming that regional staff continue to receive most complaints and to pursue some of these direct with management, but that a substantial proportion, if not a major part,of the actual case work was carried out by third tier representatives, particularly the difficult cases, it seems possible that complements of the order of the following might be adequate:

'Utilities' NICC	Scotland	c 10
	Wales	c 5
	England (N & E)	c 15
	England (N & W)	c 20
	England (S & E)	c 25
	England (S & W)	10–15
		c 90
'Transport' NICC	Scotland	5
	Wales	5
	E England	5–10
	N W & Midlands	5–10
	W England	10
	London & SE	5
		c 40
'Communications' NICC	Scotland	2
	Wales	2
		4
		130–140

10 This amounts in all to about 200 staff, compared with an existing complement of 241. If, of course, a new structure generated greater interest in, and use of,the NICCs more staff would almost certainly be needed. Another major source of uncertainty is, naturally, the number of complaints about water and buses that the NICCs might receive.

11 Table 3 envisages sharing of offices by the 'Utilities' and 'Transport' NICCs permitting some common services, eg reproduction facilities. Sub-offices might be required to provide a more local contact point for consumers, handling not only general enquiries and complaints but also undertaking local promotional work. Such offices could also provide a meeting point for members. This would still result in a saving in accommodation costs over the present arrangements and could reduce the potential increase in travel and telephone costs.

12 While the work of the new Regional Councils might be similar to that of the present Regional NICCs, its scope could be wider eg for inter-regional or inter-industry comparisons about the speed and effectiveness of complaint handling, cost containment and the like. Comparative studies of disconnections of supply, or of the supply of coin operated meters, etc could prove illuminating and help bring all regions of all industries up to the standard of the best region of the best industry.

Relationships between the First and Second Tiers

13 With the considerable increase in the authority of the *English* Regional Councils, closer co-operation between National Councils and regions seems desirable so as to encourage the country-wide application of common standards. Possible approaches include:

increased contacts between National Council Chairmen/members (other than Regional Chairmen) and the Regional Councils/third tier on their work;

greater use of National Councils as a forum for resolving the most intractable individual and general complaints;

a measure of consultation with National Councils about the budgets of Regional Councils, or even giving the National Councils prime responsibility for proposing regional budgets;

secretaries of National Councils assuming line management responsibilities for regional secretaries.

14 The *Scottish* and *Welsh* Councils require a greater degree of autonomy. The Scottish Councils in particular, would be dealing with some different nationalised industries from their English and Welsh counterparts and greater discretion to determine their own priorities and argue their own case for resources could be appropriate.

Third Tier: Local Representation

15 The main raison d'être for the third tier would be that it should be capable of providing genuinely local contact points for handling complaints and giving guidance. It ought to be possible so to arrange matters that sufficient, but not excessive, work of a worthwhile character to attract unpaid volunteers emerged. The formality of the system should, however, be slimmer, less costly and less time-consuming than the existing structure of local committees.

16 Whether or not local representatives specialized in a particular industry would depend on local circumstances and be decided largely by Regional Councils. Doubtless some local representatives would be willing and able to deal with complaints about both gas and electricity or about rail and bus services.

17 It seems likely than an 'Energy' Council could require at least 600 local representatives to function effectively for Great Britain as a whole. For a 'Utilities' Council the figure would probably be upwards of 900. A 'Transport' Council might require say, 200–300, if buses were included; if buses were not included, it is doubtful whether any local representatives would be needed.

18 To take the England (N & E) Regional 'Utilities' Council as an example, the third tier structure might comprise *three* local committees based on the NICC Regional office and the two sub-offices; or *eight* local committees based on the three BGC regions, the three Electricity Boards and the two WAs; or *fourteen* local committees based on the fourteen counties covered by the region. The larger the number of such committees the smaller their membership will need to be to be economical of time and effort.

19 A completely different approach can be envisaged which dispenses with local committees. Instead, organised by Regional Councils, local representatives would have a programme of regular meetings with industry region management which they would attend when they had cases to raise, supplemented by informal get-togethers, say by county, to compare notes and to consider guidance issued by, or requests for advice received from, regional HQs. The variants on this theme are many. For example a substitute for the foregoing would be a programme of formal meetings with industry local management, supplemented by less frequent, informal meetings at regional HQ and sub-offices which combined training with a more general opportunity to exchange views. A formal local committee structure might prove highly effective in a relatively small region, but probably less so in a very large region.

20 There are about 100 CABx and 20 CACs in the region; some or all of these might be willing to act as venues for meetings of local representatives or, indeed, to replace the work of individual representatives.

21 If variety depending upon local circumstances and initiative are to be encouraged Regional Councils might be required to agree their third tier structure with their National Councils. At present Ministers are required formally to approve local representation arrangements. In practice such proposals are seldom questioned. It is arguable whether such approval should still be sought. An alternative to Ministerial endorsement would be for Government to issue, or to endorse National Council, guidelines for determining

third tier structures. Such guidelines might also cover more general topics such as support for local representatives from colleagues and from staff; ways of keeping Regional and National Councils informed of 'grass roots' opinion; the introduction of high, and uniform, standards of complaints handling and recording.

22 For the 'Communications' NICC the position is rather different since the 200 POACs are autonomous, voluntary bodies. One question that arises is whether POACs should continue to receive some financial support from the NICC.

TABLE 3: 'SECTORAL' NICCS

NICC STRUCTURE	INDUSTRY REGIONS TO BE COVERED BY NICC			LOCATION OF NICC OFFICES	
'Utilities' NICC	**British Gas Corporation Regions**	**Area Electricity Boards**	**Water Authorities**	**Location of NICC Headquarters**	**Possible NICC Sub-Offices**
Scotland	Scotland	S of Scotland N of Scotland	None	Edinburgh or Glasgow	Inverness
Wales	Wales	Merseyside & N Wales (part) S Wales	Welsh	Cardiff	North Wales
England North and East	Northern N Eastern E Midlands	N Eastern Yorkshire E Midlands	Northumbrian Yorkshire	Leeds	Newcastle Loughborough
England North and West	N Western W Midlands	N Western Merseyside & N Wales (part) Midlands	North West Severn-Trent	Manchester	Birmingham
England South and East	Eastern North Thames S Eastern	Eastern London S Eastern	Anglian Thames Southern	London	Ipswich
England South and West	Southern S Western	Southern S Western	Wessex S West	Bristol	Exeter
'Transport' NICC	**BR Regions**	**National Bus Company Subsidiaries**			
Scotland	Scotland	None: will cover the SBG		Edinburgh or Glasgow	
Wales	London-Midland (part) Western (part)	Crosville (part) South Wales National Welsh Jones		Cardiff	North Wales
East England	Eastern (outside the London area)	Northern United Yorkshire Woollen West Riding Yorkshire Traction E Yorkshire W Yorkshire E Midland Mansfield District Lincolnshire Trent Midland General Eastern Counties United Counties Eastern National		Leeds	Newcastle
N West and Midlands	London-Midland (part)	Cumberland Ribble Crosville (part) Potteries Motor Traction Midland Red Oxford S Midland		Manchester	Birmingham
W England	Western (part)	Bristol Hants and Dorset Devon General Western National Alder Valley		Bristol	Exeter
London and South East	Southern + London area	Gosport and Fareham Southern Vectis Southdown Maidstone District East Kent London Country		London	

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Not Incl

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H OET

TELEPHONE DIRECT LINE 01 215 5662
SWITCHBOARD 01 215 7877

From the
Minister of State
for Consumer Affairs
The Rt Hon Sally Oppenheim MP

Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

cl copy letter
1 To press office
2 to Miss Rollestan, to get briefing for questions for 15th
ra
MAP 10/XII

10 December 1981

Dear Patrick

CONSUMER INTEREST IN THE NATIONALISED INDUSTRIES

In my letter of 2 December I promised to circulate copies of our consultative document on consumer representation in the nationalised industries as soon as possible. I now enclose a copy. - from of file

We shall be publishing the document on 15 December, and I shall be holding a press conference at 11.00am. I propose to inform the House of publication by replying on that day to an arranged Parliamentary Question.

I shall arrange for similar question and answer in the House of Lords. Copies of the document will be made available in the Vote Office from 11.00am.

I am sending copies of this letter and its enclosure to those who received copies of my letter of 2 December.

Yours ever
Sally

SALLY OPPENHEIM

ACTION

Mr Scholar (4)

Prime Minister

MCS 3/12

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THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

E(NI)(81) 10

2 December 1981

COPY NO 1

Please give no more work to CPRS yet. I am considering whole strategy. MT

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON NATIONALISED INDUSTRIES

Note Told D Wright by telephone - he & Sir R Armstrong are fully aware. MCS 7/12

FUTURE WORK OF THE SUB-COMMITTEE

Note by the Central Policy Review Staff

1. Ministers may want to take stock of E(NI)'s programme over the next few months, and to consider what new work they wish to commission.

2. The Committee already has important work in hand to carry forward the new approach to Government relations with the nationalised industries. The main items are listed in Annex 1.

3. This programme of work will limit the scope for fresh remits in the next few months. There is no shortage of subjects worth examining in detail, and some of these are listed in Annex 2. But for the present, the CPRS believes that the Committee should confine itself to commissioning work and taking decisions on two other important topics in the period before the Easter Recess -

(i) **Investment Appraisal and Methods**

Ministers have endorsed the proposals in the Chancellor's paper E(NI)(81) 4. The Treasury will lead on this subject, and it is desirable that E(NI) should take any decisions before the IFR round gets under way. The CPRS hopes that the study will cover three aspects -

- whether the various industries' appraisal methods are consistent and satisfactory;

- how to take account where relevant of a large scale investment programme (eg System X, rail electrification), as well as reviewing individual smaller projects within annual investment plans;

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- how the industries' investment programmes can take into account other Government objectives such as exports and the strengthening of UK suppliers.

(ii) Regulation of Monopoly Utilities

As our main Report explained (paragraphs 10 and 11, Annex E) the CPRS believes this to be an important but difficult area. If Ministers agree, one way to tackle it would be for the CPRS, in consultation with Departments, to study and report on the prospects for devising a satisfactory regulatory framework for any monopoly utilities that might be sold to the private sector. Much more work would need to be done on the practical problems (eg those listed in Annex E of the main Report); it is already clear that there are some substantial difficulties, and that US experience is not necessarily a satisfactory model for this country. One or two industries (eg electricity, telecommunications) might be examined as test cases.

Conclusions

4. Ministers are invited to note the work already in hand, endorse the suggestions at 3(i) for the study of investment appraisal and methods being undertaken by the Treasury, and consider whether the CPRS should report to E(NI) by April 1982 on the regulatory issue described in paragraph 3(ii).

Cabinet Office

2 December 1981

Annex 1

Current Work

There is already work in hand for the Committee on five major subjects -

1. Objectives

At its first meeting E(NI) invited sponsor Ministers to arrange for the preparation of draft objectives for individual nationalised industries, to be submitted to the Sub-Committee before the Christmas Recess. If the Committee agrees, they will then need to be negotiated with Chairmen individually, as foreshadowed in the discussion document sent to the Chairmen's Group. Ideally agreement on them should be reached before Ministers examine major industries' Corporate Plans ((2) below). In any case they should be settled before the IFR round begins.

2. Reports on Corporate Plans

At its second meeting E(NI) agreed that sponsor Ministers should report on each major industry in the light of the Corporate Plan, so far as possible in the period January-May next year. The Treasury is taking the lead in arranging a programme of these reports.

3. Monitoring

The CPRS has drafted a paper (following the main CPRS Report, Annex D) which, after discussion between officials, should be ready for submission to the Sub-Committee in early January. If E(NI) is content, the paper could then be discussed with the nationalised industries with a view to reaching agreement in February for implementation from the start of the 1982-83 financial year.

4. Contingency Margins in EFLs

E(NI) invited the CPRS to study this question in July; the report will be submitted to the Sub-Committee shortly.

5. Succession Planning

Board appointments clearly have a vital part to play in Government/ nationalised industry relations. In the past there have been problems, stemming partly from lack of clarity on objectives, and partly from lack of any formalised succession planning, as well as inherent recruiting

difficulties. A paper is being prepared as a basis for a general Ministerial discussion of aims and procedures, though decisions on individual appointments will remain primarily a matter for the sponsor Ministers concerned.

Other Possible Areas of Future Work

1. Priorities between nationalised industries

It would clearly be useful if Ministers were enabled to develop criteria which would help them to judge more rationally between the competing bids of the industries for limited public funds. This is well known to be an intractable problem, but the CPRS would be willing to give some thought to it next year, drawing on the Treasury paper on investment appraisal and methods, and experience with comprehensive reviews of major industries.

2. Property

Many of the industries have enormous property holdings, and it is widely believed that they do not get, or are not sufficiently motivated to get, the best value from these. Ministers might at some stage invite the Special Adviser to the Secretary of State for Industry to prepare a paper for E(NI) discussing the present management of the industries' property portfolios and how it might be improved.

3. Working capital (stocks and debtors)

The CPRS has long believed that many of the industries could economise on their working capital requirements. Whether this merits a separate across-the-board study will depend to some extent on the industries' estimates of their working capital requirements, against past trends, as they emerge in the 1982 IFR round.

4. Major inter-relationships between the industries

There is a case for highlighting these inter-relationships more systematically; for example the impact of coal production and prices, and NCB finances, on the electricity supply industry, and electricity in turn on BSC's finances. Another potential inter-relationship is the risk that the unions may co-ordinate their pay negotiations more closely.

Prime Minister (2)

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H OET

TELEPHONE DIRECT LINE 01 215 5662
SWITCHBOARD 01 215 7877

MLS 4/12

From the
Minister of State
for Consumer Affairs

The Rt Hon Sally Oppenheim MP

MS

Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
SW1

2 December 1981

Dear Secretary of State

CONSUMER INTEREST IN THE NATIONALISED INDUSTRIES

On 13 August I circulated to colleagues directly concerned a copy of the draft of our consultative document on consumer representation in the nationalised industries.

The final text of the document has now been agreed interdepartmentally and I propose to publish it before Christmas - our target date is December 15 - as a Departmental consultative paper, with a personal foreword. I enclose a copy of the latter. I will circulate copies of the final version of the paper itself as soon as possible: the text will be the one circulated on 13 August, amended of course as agreed in our recent correspondence and, on some points of detail, as agreed between Departments concerned at official level.

On December 3 we have to answer an oral question about the NICC review put down in the House of Lords by Baroness Burton. We plan to make clear in our reply that we intend to publish a consultative paper before Christmas.

I am sending copies of this letter to the Prime Minister and the Chief Whip; to all members of E(EA); and to David Howell, Jim Prior, Janet Young, and Sir Robert Armstrong.

Yours sincerely

Peter McCarthy

for SALLY OPPENHEIM (Approved by the Minister & signed in her absence)

CONSUMERS' INTERESTS AND THE NATIONALISED INDUSTRIES– A CONSULTATIVE DOCUMENT

FOREWORD BY THE MINISTER OF STATE FOR CONSUMER AFFAIRS, DEPARTMENT OF TRADE

This paper is mainly about, and results from an extensive review of, the work of the nationalised industry consultative and consumer councils and committees – the NICCs. We have looked closely at their present role and at the whole range of options for re-shaping: from complete abolition to leaving them exactly as they are. I am quite clear not only that the protection afforded by the NICCs is still needed but also that they must be made more effective and compact. They may possibly need restructuring. The Consultative Document explores how that might be achieved.

The NICCs must command the confidence of consumers. The whole structure must appear more accessible and be seen to be wholly independent. Above all the NICCs must get, and be seen to get, practical results. In particular they need to provide an expert and effective complaints-handling service, easily accessible and known to and trusted by consumers. I attach very high priority to this because it is where the NICCs can most clearly help those who need them.

I myself am quite convinced that we need to reduce the number of NICCs but increase their authority; that they should spend more of their available time and resources on pursuing the concrete problems of customers and less on broad policy issues; and that the arrangements should be such that Councils can resist being deflected from pursuing improvements by assertions like 'That can't be done' because they know full well that what they are seeking in one region is already standard practice in another; and so on. Of course, respondents to this paper will have many broad and detailed suggestions to make. For example, consideration of complaints-handling naturally opens up questions of accessibility and the use of devices like Freefone, Freepost, complaints boxes on railway stations, participation in radio 'phone-ins' and the like.

This Consultative Document necessarily concentrates on the broad framework and other major issues. It suggests two possible reforms: a major re-structuring involving amalgamations; and more modest reform, mainly of the Gas and Transport NICCs. My colleagues and I do not want to make major change for its own sake. If we are to undertake a major re-structuring we shall need to be fully satisfied that the long-term benefits justify the new legislation needed.

I claim no monopoly of new ideas about reforms. I seek particularly observations on those we suggest in this paper. But I am very ready indeed to consider any proposals which are aimed at achieving the objectives set out in paragraph 29. I very much look forward to getting a substantial response especially from those who work in or with the NICCs. The present NICC arrangements have served us well for over 30 years. I am looking for new ones which will do even better and last a long time. I need to draw upon the experience and advice of all interested parties to achieve that.

SALLY OPPENHEIM

December 1981

Further copies of this report can be obtained from, and comments should be addressed to, the following address:

Consumer Affairs Division
Department of Trade
Room 2521
Millbank Tower
Millbank
LONDON SW1P 4QU

Comments should reach the Department no later than 15 March 1982

DEPARTMENT OF TRADE
MILLBANK TOWER
MILLBANK
LONDON SW1P 4QU

Tel; Direct Line
01-211 4527
Switchboard
01-211 3000

Duty Clerk
No 10 Downing Street

With the Compliments of

J.M. Whitworth.

Copy of final revise of DOT Consultative Document on Consumer Representation in the Nationalised Industries, as requested in your phone call earlier today to Mrs Oppenheim's office.

2.12.81

CS 31

FINAL REVISE 2.12.81

(Embargoed to 11.00 am 15 December 1981)

DEPARTMENT OF TRADE

Consumers' Interests and the Nationalised Industries- A Consultative Document

Department of Trade

LONDON
1981

First published 1981

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CONTENTS

I INTRODUCTION

1 In May 1979 the Government announced that it was to review the 44 nationalised industry consultative and consumer councils and committees (the NICCs) in Great Britain*. There were three main reasons for doing so.

2 First, many nationalised industries enjoy a considerable degree of immunity from the free play of the market and are not under the same pressure as private sector companies to promote efficiency, contain costs and act responsively towards customers. The Government has introduced legislation wherever possible to remove or reduce statutory monopolies and other barriers to competition and in some cases to enable the sale of shares in industries. Where nationalised industries are not or cannot be exposed to market forces, the Government has established a framework of financial and other disciplines, including references under s11 of the Competition Act, to act as a substitute or proxy. The NICCs are part of this machinery, representing customer views direct to management, stimulating the industries to become more responsive and taking up customer complaints. The Government needed to satisfy itself that this was being carried on as effectively as possible.

3 Second, the Government is determined to wind up all non-Departmental public bodies which have served their purpose and to ensure that those which remain achieve high standards of economy, efficiency and effectiveness. The NICCs are funded entirely by the taxpayer through Central Government and require large numbers of Ministerial appointments. It was thus clearly right to consider whether the complex NICC structure of national, regional and local councils and committees is still justified. Although there has been some piecemeal evolution over the past 30 years, the basic structure dates from the time when the industries were first nationalised.

4 Third, a number of reports during the 1970s, notably by the Select Committee on Nationalised Industries (SCNI), the National Consumer Council (NCC) and 'Justice', while generally appreciative of the NICCs, were critical in a number of respects.

5 The time was thus clearly ripe for a review of the NICCs, the twin objectives of which were summed up in the *Report on Non-Departmental Public Bodies* (Cmnd. 7797): 'A review is in progress of the existing set-up ..... with the aim of replacing this by something smaller and more effective' (p118).

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*Northern Ireland has been dealt with separately.

II THE EXISTING STRUCTURE

6 The 44 NICCs cover the gas, electricity, coal, rail and ferry transport, and posts and telecommunications industries. All except the Electricity Consumers' Council (ECC) are statutory bodies, working within a framework set by the nationalisation legislation of 1945–50. They involve almost 1,000 Ministerial appointments. (The Regional gas and electricity NICCs in addition make some 2,200 appointments to their local committees, which formally are not NICCs.) The NICCs are serviced by a permanent staff of about 240. Their total cost was £3.7m in 1980–81.

7 The *gas* consumer bodies comprise a National Gas Consumers' Council (NGCC); 12 Regional Councils (reflecting the geographical structure of the British Gas Corporation (BGC)) and 63 local committees*. The *electricity* consumer structure similarly mirrors that of the electricity supply industry. For England and Wales there is an ECC, 12 Consultative Councils and 64 local committees*; there are two separate Councils, with 14 local committees*, each covering one of the two Scottish Electricity Boards. *Rail and ferry transport* has a Central Transport Consultative Committee (CTCC) and 11 Area Transport Users' Consultative Committees (TUCCs). The geographical coverage of the regional (and local) bodies is determined by the geographical responsibilities of the regional organisations within the nationalised industries.

8 The Post Office Users' National Council (POUNC) deals nationally with *posts and telecommunications.* There are separate but subordinate Councils (POUCs) for Scotland and Wales. There is no formal sub-structure but the Councils obtain advice from local Post Office Advisory Committees (POACs), some of which receive modest Government support. *Coal* has a single national council, the Domestic Coal Consumers' Council (DCCC). (Complaints are dealt with through the (private) Approved Coal Merchants Scheme (ACMS): see below.)

9 All the NICCs, save the ECC, have statutory functions, certain of which are broadly similar. In general they are required to consider any matters raised by consumers, Ministers or the industries themselves concerning the service and facilities provided by their respective industries (although the CTCC and TUCCs are specifically excluded from considering charges); they can pursue matters which appear to them to be worthy of consideration; and, where action appears to the Councils to be necessary on specific issues, they are required to notify their conclusions to the industry and/or the Minister. Local committee arrangements are established by the Regional Councils (who make appointments to them), subject to Ministerial approval.

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*These committees are known variously as 'local', 'district' or 'area' committees.

10 The National Councils are primarily concerned with policy and strategic issues. They undertake a limited amount of research; in recent years a degree of co-operation between themselves and with other consumer bodies on joint projects has emerged. The relationship between national and regional bodies is a shifting and perhaps somewhat uneasy one. Some central co-ordination of the second tier activities is achieved by membership of the National Councils of Regional Council chairmen. At the regional level policy issues also feature prominently as do complaints. The prime function of local committees is settling complaints but they in turn also spend time discussing national and regional issues. The majority of the complaints dealt with by the local committees are received via the Regional Secretariat, although some are made direct to local committee members, particularly those who are well known locally. The Chairmen of local committees invariably sit on Regional Councils. Wide variation can be found in the way Regional Councils and local committees operate within the same NICC. For example, there are significant differences in the geographical 'density' of local committees.

11 Within this broad pattern there are considerable differences in emphasis from NICC to NICC. Handling complaints is an important part of the energy Regional Councils' work, but only a relatively minor part of that of the National Councils and of the TUCCs. POUNC has traditionally focussed on prices and quality of service although the national headquarters receives and deals with complaints. The DCCC members' role as consumer representatives on the panels of the ACMS has no parallel amongst the other NICCs. In part, these differences of approach reflect differences in the nature of the industries concerned: it is possible to remedy a defective appliance or mistaken bill, but not a single cancelled train or a late letter. In part, they reflect differences in structure, statutory powers and history.

12 Over the years complaints have become a more significant element in the work of the NICCs. Currently between them they handle about 70,000 complaints from consumers who have sought, but failed to obtain, satisfaction from the industries. Nevertheless the findings of NCC surveys suggest that complaints to the NICCs are only the tip of the iceberg. Many go to Citizens' Advice Bureaux (CABx) and other agencies. But many people simply do not complain at all because they feel it pointless to battle with large, powerful corporations; or are unaware of the appropriate NICC; or believe NICCs are off-shoots of the industries themselves.

13 The NICCs do not cover London Transport Services*, buses, water or aviation. London Transport has its own consumer arrangements; those for buses are primarily in the hands of local authorities. In England and Wales local authority nominees provide the majority of the members of Water Authorities (WAs) with the job, inter alia, of bringing to

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*Except as regards proposed permanent closure of underground lines

bear the views of water users. The provision of water in Scotland is a direct responsibility of local authorities. Aviation is subject to the general oversight of the Civil Aviation Authority (CAA) which has an Air Transport Users' Committee (AUC) to advise it. There are also Airport Consultative Committees (ACCs) covering British Airports Authority (BAA) and the larger local authority airports.

14 More detailed information about all these bodies is given in Annex A.

III PRESENT PERFORMANCE

15 When the NICCs were first established in 1945–50, there was little pre-war experience of nationalised industries on which to draw. Many of the enterprises had been in municipal hands. The NICCs were intended essentially to meet concern that in the new state monopolies the interests of management and employees might over-ride those of consumers; and to give local authorities a special continuing role in respect of the gas and electricity industries. The NICCs have had to evolve their detailed activities and working methods in response to the major changes in the industries and society as best they could within the basic structure set them, with only limited advice or guidance from Government on priorities and functions.

16 Against this background it is helpful to apply the tests proposed in paragraph 24 of Cmnd. 7797 to assess the performance of and need for non-Departmental public bodies.

'Are the functions being carried out well and economically?'

17 Reports by the SCNI, the NCC and 'Justice' conclude that the NICCs do much good work. The gas and electricity NICCs in particular often resolve varied problems of complainants when the industries themselves have failed to do so. They have played an important role in influencing 'middle management' policies, for example, in relation to area electricity tariffs, monitoring the codes of practice on disconnections and regional rail timetabling. They have made a sensible – though not decisive – contribution to strategic national issues, such as pricing and investment.

18 These reports also make a number of criticisms. The most important are:

a the NICCs are not well enough known to consumers;

b they are not cost-effective in dealing with customer complaints;

c they are, or appear, insufficiently independent of the industries;

d they are ineffective when raising policy matters, being too often ignored by the industries and Government.

19 The first two are related and, in spite of better self promotion (notably by the NGCC) in recent years, have some validity. Lack of awareness of the NICCs and of the help they can offer means that they are less used and, hence, each complaint costs more to resolve than it might. Moreover, the NICCs are not always sufficiently effective in dealing with customer complaints.

20 As regards NICC independence, there is a delicate balance to be struck between establishing working relationships with industry and preserving autonomy. In practice, in some areas, the NICCs appear to have managed to achieve it. We do not believe that they defer unduly to, or accept uncritically the views of, industry management though in the handling of complaints they sometimes give that impression. The appearance of independence is as important as the fact. Any suspicion that NICC-industry relations are too 'cosy' is damaging to the NICCs: their views are taken less seriously and complainants are less likely to seek their help. There are practices, such as Area ECC Chairmen sitting on Area Electricity Boards and the staffing of TUCC secretariats with seconded BR employees, which detract from the appearance of independence, even though they may help the NICCs develop better understanding of, and closer relationships with, the industry. More generally there is a case for reviewing the one-to-one NICC-industry relationships. We return to these points later.

21 The criticism that the NICCs are ineffective when raising policy matters is less valid. On non-financial policy questions, such as the development of codes of practice on disconnection of energy supplies or on Post Office compensation, they have achieved a great deal. Their contributions on financial policy questions, such as CEGB forecasting of costs or postage rates, have also carried weight. These are areas where the consumer view has to be balanced against the potentially conflicting interests of the taxpayer and of the economy as a whole. The NICCs are certainly not ignored by the industries or Government, but their voices cannot be decisive.

22 As regards the economical performance of their functions, scope clearly exists for improving cost-effectiveness. For example, by rationalising the complex structure of committees: many third tier local committees, in particular, fail to exercise their 'grass roots' representative function and over-concentrate on general discussion of issues resolved elsewhere. These issues are dealt with more fully in Chapter IV.

'Are the functions best carried out by the NICCs rather than by other means?'

23 The work of a number of other organisations complements, and sometimes duplicates, that of the NICCs, but no single body could replace any one of the NICCs. For example, the Monopolies and Mergers Commission (MMC) and the NCC can consider national and regional policy issues, but not on the same continuing basis as the NICCs; nor can they handle complaints. The CABx handle many complaints, but do not take up major policy issues. Organisations such as the Mail Users' Association, the National Association of Rail Passengers, or the Electrical Association for Women (to name only a few), cover much the same field as that of the NICCs, but they neither represent all consumers nor enjoy the statutory authority of the NICCs.

24 Collectively such bodies could replace much of the work of the NICCs. If the NICCs disappeared, complainants would turn to the CABx and other agencies and the Government could continue to bring a consumer voice to bear on national policy issues by enhancing the role of the NCC and making increased use of references to the MMC under s11 of the Competition Act 1980. However, this could not be regarded as an improvement on the NICC system. The complaints handling service would be diminished: for example, the geographical coverage of the CABx is far from even; their 10,000–12,000 mainly voluntary staff have considerable familiarity with the complex financial problems of clients that can lead to gas or electricity disconnections, but also draw on the industry expertise and contacts of the NICCs; nor would the increased workload be welcomed by the CAB movement or any of the other organisations who would receive complaints formerly handled by the NICCs. Again, with the possible exception of the transport sector, there would be a significant loss of 'consumer' input at the 'middle management' level. Lastly, the dispersal of NICC functions around a range of different bodies would itself be damaging: complaints-handling and policy roles are closely related, since complaints patterns will indicate trends of consumer dissatisfaction with industry policies.

25 Central Government could itself theoretically assume the NICCs' functions, but this is undesirable on a number of counts. The Government cannot have a 'partisan' consumer voice; nor could it easily take up local complaints and policy issues; lastly, it would be unacceptable to replace unpaid or part-time paid members of the Councils and their local committees by full time civil servants.

'Are the functions being carried out essential? Or, if not, are they valuable enough to justify the time and money spent on them?'

26 Notwithstanding the nationalised industries' own considerable efforts to become more responsive, we believe, for the reasons given in paragraph 2, that the present NICC functions are still required. The system is unique in combining an independent machinery for resolving customer complaints with the monitoring of 'middle management' policy and practice which affects quality of service and with the ability to comment on strategic areas of national policy. Complaints handling is of particular importance and the function from which consumers derive the most immediate benefit, but (as noted in paragraph 24) these various functions are mutually reinforcing.

27 There is, additionally, the all-important factor of customer expectations. These are high and, rightly or wrongly, the nationalised industries are felt not to meet them. Moreover, not only do many users feel powerless in their dealings with the industries, they may actually have more limited legal rights of redress than in their dealings with private firms. In short, there is a gap to be bridged between customer and nationalised industry and the NICCs are needed to bridge it.

28 The cost of the NICCs, whilst small in relation to the turnover of the industries they cover, is nevertheless substantial. The time spent on NICC work by the 3,000 or so unpaid members is considerable. The NICC functions may well justify the time and money spent on them, but one major aim in any reform must be to improve the service they offer and to make more effective use of their resources.

Conclusions

29 In short we firmly believe that there is a need for the NICCs, or something like them, and that they could not satisfactorily be replaced by another existing body or bodies. It is also evident that there are defects in the existing system and, consequently, the NICCs cannot be left as they are. What is needed is reform – not major changes of role and function, but rather greater clarity of purpose, better ordering of priorities and a slimmer, more professional machinery. The objectives of such reform can be summarised more specifically as follows:

a to promote a more effective system, particularly in the field of complaints handling;

b to produce arrangements that are better known to, and more readily understood by, consumers;

c to enhance NICC independence from the industries;

d to create fewer, smaller and more authoritative Councils.

IV OPTIONS FOR REFORM

30 This chapter identifies seven key areas in which changes might be sought which would fulfil the objectives in the preceding paragraph. Reforms which would require primary legislation are distinguished from those which could be effected within the existing statutory framework. The Government would only contemplate legislation if it were decided to carry out a major restructuring of the NICCs; it does not believe that legislation would be worthwhile or justified simply to make minor changes.

31 The areas considered are:

- i functions and priorities
- ii powers
- iii scope of industry coverage
- iv structure
- v membership
- vi training, staffing, accommodation, funding, and the like
- vii relationships with other bodies.

i Functions and Priorities

32 The NICCs do not always exercise their functions as well as they might. Their priorities also appear to require some revision. For example:

a The efficient handling of complaints should be a main priority for all NICCs. National Councils, of course, need only become directly involved in individual cases infrequently, but they should at all times regard themselves as responsible for the way complaints are handled at regional and local levels and where they give rise to questions of national policy on the part of the industry concerned. There is scope, for example, for agreeing with the industries concerned that individual cases or groups of cases should serve as precedents, information about which could be widely disseminated, to save time in handling subsequent similar problems; this would be one part of the general promotion of inter-NICC and intra–NICC exchange of experience on complaints handling. A prerequisite for improvement in this direction is the maintenance of better and more standardised records, an aspect of Regional Secretariat work that appears neglected.

b Constructive NICC scrutiny of, and comment on, price proposals is at the same time difficult and sensitive from many points of view. The setting of financial objectives and external financing limits are matters between the Government and the industries. Yet undoubtedly the public regard prices

as one of the most important, if not the most important, field in which the customers' watchdogs should be active. Without encroaching upon the role of management (or of Government) it ought to be possible for the NICCs to supply a critical but constructive input in relation to costs. Indeed in the financial area the NICCs' most important function at national, and possibly regional, level probably ought to be in seeking 'value for money' and to be seen to be doing so. POUNC are currently exploring with the Post Office the possibility of conducting a 'customer audit', under which they would analyse the relative movements in price and quality of service, seeking explanations of any changes noted. The Centre for Policy Studies, too, have commended the idea of a 'value-for-money audit' although their approach differs from that of POUNC. Other NICCs might usefully consider this approach, assuming their industries already have, or could collect, quality of service data amenable to such analysis.

c NICC impact on both industry management and the public must be fostered. This – again – requires a delicate balance. The NICCs are not executive bodies; only management can effect change. But an important objective of the NICCs must be constructively to assist this. Present relationships between the NICCs and industries are close and valuable. For example, industry representatives frequently participate in meetings of local committees. But the way in which these relationships operate at present varies widely from body to body and careful examination is needed to determine the practices most likely to promote both close co-operation and NICC independence. There are other ways in which the punch of the NICCs might be increased, without either radical change in the organisations or major new expenditure: eg by improved use of the media and other institutions. Advertising is expensive, but regional and local publicity (in particular) ought to be obtainable without unfairly criticising the industries – indeed opportunities for co-operative activity may exist.

33 The examples in the previous paragraph are, of necessity, limited and couched in general terms. It is clear that the Government ought to give clear, if broad, guidance to the NICCs on what it sees as their proper functions and priorities. This would, almost certainly, be best done by open, published guidelines, rather than by detailed law, though some form of Parliamentary scrutiny and approval could be considered. Matching expressions of expectations of the industries (eg about the provision of information) might also be helpful in some cases. Reference to this is made elsewhere in the paper and in Annexes B and C.

ii Powers

34 The Government does not consider that any major change is needed in the statutory powers and duties of the NICCs. Their success in resolving complaints owes nothing to such powers and duties; nor would changes here make their voice on policy matters more forceful. The objective must rather be to foster further the co-operative endeavour between the NICCs and nationalised industry management which has developed over the years, bearing in mind that the key to effective and constructive action by the NICCs is access to information relevant to their functions.

35 If legislation were introduced, it would of course be for consideration whether the present diverse statutory rights of the NICCs should be made somewhat more uniform. The Government does not however believe that this should involve giving the transport NICCs the ability to comment on rail fares, which they are statutorily precluded from doing at present. It has been the policy of successive Governments that BR should be free to set prices which attract custom at a market level. British Rail is subject to direct competition from other forms of transport, especially on their main trunk routes. Such competition has been increased by the Transport Act 1980. It should not in these circumstances be necessary to introduce an outside scrutiny of railway fares.

36 A separate issue (alluded to in paragraph 10) which arises is the relationship between the National and Regional Councils. It is possible that arrangements which gave National Councils greater oversight of Regional Councils might be beneficial. The aim would be better co-ordination without reducing the Regional Councils to satellite status. Here again the issue of guidelines, rather than rules with the force of law, might be the most effective way of achieving the right mixture of authority and independence.

iii Scope

37 The NICCs provide only part of the arrangements for directly promoting the interests of the consumer. Mention has been made, for example, of the separate arrangements regarding London Transport and the role of local authorities in relation to buses. For the most part they would probably not be improved by being brought within the centrally financed NICC structure. It is for consideration, however, whether some might be, for example, the English Water Authorities and the Welsh Water Authority, the National Bus Company (NBC) and the Scottish Bus Group (SBG).

38 *Water services* (ie principally water supply, sewerage and sewage disposal and land drainage) are provided by the 10 Water Authorities (WAs). In areas covered by the 28 statutory water companies (SWCOs) the WAs' water supply duties are discharged through the companies. There is no consumer representation provision in respect of SWCOs. The

Monopolies and Mergers Commission's report on Severn-Trent Water Authority published in June 1981, said that when the rights of local authorities to nominate a majority of the members of the Authority were established under the Water Act 1973 it was hoped that this would enable consumer interests to be adequately taken into account when the policies of the Authority were being determined, but it was clear that these hopes had not been satisfactorily fulfilled. The Commission recommended a substantial reduction in the size of the membership of the Authority, which should not be based predominantly on local government representation, and put forward criteria for effective consumer representation in the water industry: a separate consumer body for Severn-Trent's area sufficiently large (somewhere between 50 and 100 members) to extend the link with local government and also provide more straightforward representation of local consumer interests as well as representation of other bodies such as the CBI, TUC, Chambers of Commerce and recognised consumer groups. The Government is consulting separately on the future membership of Regional Water Authorities and will be looking at the position of the water industry in relation to this review. Following consultation the Secretary of State for Wales has now laid before Parliament an Order varying the constitution of the Welsh Water Authority and is proposing the setting up of local consumer advisory committees.

39 *Civil aviation* involves a very large number of organisations, some in the public sector, many in the private. Any journey by air brings the passenger in contact with a number of them (eg customs, immigration, catering concessionaires, airlines and surface transport authorities) and, if he or she is dissatisfied, more than one may be at fault. A consumer council constituted to deal only with complaints about nationalised industries or the public sector would be able to deal only with a small proportion of those which might arise in civil aviation. Machinery already exists to represent customer interests in this area. It has generally worked well in the past and should continue to do so. The AUC advises the CAA on its statutory duty to safeguard the interests of airline users; this includes the investigation of individual complaints against airlines. The representation of air travellers' interests at airports, on the other hand, is best handled by the ACCs, which have been set up at all airports of any size, and whose responsibilities also include consideration of the interest of other parties affected by the airport, such as airlines and cargo handlers, local authorities and organisations representing the local community. The strength of the present Consultative Committees lies in their ability to consider all aspects of an airport operation.

40 *Bus services* are provided by a range of bodies: two nationalised industries (the NBC and SBG); London Transport; 7 Passenger Transport Executives (PTEs); some 50 municipal bus companies; and a host of private firms. Among the public sector providers of bus services, London Transport and the PTEs already have consumer bodies and the municipal operators' policies can be prominent issues in local politics. It can be argued that the NBC and SBG are relatively immune to consumer pressure. However, bus services differ from most other services provided by nationalised industries: the NBC and SBG together provide

less than half the bus services in the country and they have been exposed to competition from the private sector by the Transport Act 1980. The problems met by individual bus users are almost always essentially local matters which can be taken up with the management by County or (in Scotland) Regional Councils. Recourse may also be had to the Traffic Commissioners where complainants have not received satisfaction from the bus operator. Against this background there must be doubt whether NICC scrutiny of that part of the bus industry which is nationalised would significantly strengthen existing safeguards for bus users.

41 There is lastly the question whether NICCs should cover all the activities of nationalised industries or only those where a monopoly or near-monopoly exists. The Government accepts* that genuinely competitive services of otherwise monopolistic nationalised industries need not be formally subject to NICC scrutiny, so long as customers are not likely to be confused by this. However, the Government would not wish to promulgate complex legislation, primary or secondary, to remove marginal activities of industries from NICCs' remits; this is an area where the exercise of common sense by all parties should be sufficient.

iv **Structure**

42 The two structural options most likely to meet the objectives identified in paragraph 29 are as follows.

a Reform without legislative change

43 The first is to leave the statutory base unchanged: there would continue to be a separate NICC for each industry at national level, but the regional structure would be slimmed down where appropriate. For example, the number of Regional Gas Consumers' Councils in England might be reduced from 10 to 4. Each would then have oversight of 2 or 3 BGC Regions. (Scotland and Wales would each continue to have their own Councils.) The effect would be to raise the status of each Council, enhancing the impact on both the public and the industries. The distancing of the Councils from their industries would promote independence and would enable each Council to compare one Region's practice with another; they would be in a much better position to form, and promote, ideas of 'best practice' in the industry: some Regions are quite markedly better than others at settling disputes, in fixing and keeping to appointments by meter-readers and service staff, in implementing the codes on disconnections, etc. By judicious use of publicity, the Council could bring each Region up to the standard of the best. Apart from this decrease in numbers of Councils, there would be scope for economies of scale in complaints handling and for revising the schemes of local representation, as described in paragraph 45. The enhanced

*As in the British Telecommunications Act

status of the Councils might well offset the increased difficulty of attracting high-calibre members which the heavier burden of work might generate.

44 The Area TUCCs could also be reformed. The aim here would be to create TUCC Regions that matched as closely as possible the 5 British Rail operating Regions. This would enable each Committee to consider the varying user requirements and system constraints on route 'corridors', which comprise inter-city, local and commuter services. The normal level of TUCC access to BR would be raised from Divisional to Regional management; the same benefits of increased status would accrue as in the case of the Regional Gas Consumers' Councils.

45 The number of Area ECCs could not be reduced in this way, because they are statutorily linked to the Area Electricity Boards. Nor, given the 'federal' structure of the electricity industry, is the case for merging Area ECCs quite so strong as for the Gas Councils. However, for both gas and electricity, the number of local committees could be reduced with the co-operation of the NICCs. The twin aims would be to make local contacts as accessible as possible to consumers, whilst reducing the burden of duplicative formal meetings of committees. Other forms of local representation and contact points might be evolved, eg CABx, CACs or local correspondents with Freefone access to the Regional Council's Secretariat, having an organic relationship between themselves and with the Regional Councils different from the present one.

46 The existing NICCs could also be helped informally to seek improved performance. The Government for example, might examine the scope for encouraging, through the publication of guidelines, the NICCs to work towards greater co-operation among themselves; closer co-operation with the CAB movement, other consumer bodies and local authorities on training of staff and members; exchange of information, rationalisation of complaint handling and recording procedures with improved feed-back from local members; etc. It is illustrative of what might be done that many NICCs have no arrangements for training newly appointed members. In none of this would the Government wish to impose a uniform pattern nor work towards such improvements without the closest consultation with those with experience in the field. The changes that could be made without legislation are described more fully in Annex B.

47 In sum, such reforms could reduce the number of NICCs from 44 to 33 and the number of Ministerial appointments from almost 1000 to about 750, whilst offering the NICCs an opportunity to present a more authoritative and coherent consumer voice.

b Reforms requiring new legislation

48 The second option is broadly to amalgamate the present energy NICCs (gas, electricity and coal) and possibly bring within the same body consumer representation in

respect of water, thus creating a 'Utilities' NICC. A separate NICC structure might be retained covering BR and the ferries as at present, but with the possible addition of the nationalised bus services. A third NICC, 'Communications,' would have the same field of responsibility as the existing POUNC (and POUCs) – posts and telecommunications. This would create a coherent set of 'sectoral' arrangements. There is sufficient similarity between the problems arising in the different utilities – particularly gas and electricity – for them to be handled by a single body at national level. Some internal specialisation would be required, which should be possible with Councils of manageable size and adequate support staff, but this would not reduce the much improved opportunity for inter- as well as intra-industry comparisons and promotion of 'best practice'.

49 The 'Utilities' and 'Transport' National Councils would each be supported by Regional Councils and local representation, with the same industry coverage as the national bodies. The thinning out described in paragraph 43 in respect of gas would apply to the 'Utilities' Council as a whole – ie it too would have 4 English Regional Councils as well as separate Councils for Scotland and Wales. Local representation would normally be amalgamated (see paragraph 45), but separate specialisations could be considered. This, together with adoption of the Transport reforms suggested in paragraph 44, would result in a very much slimmer organisation than under the first option. The Regional Councils and local representatives would, of course, continue to handle middle management issues and probably receive the bulk of complaints. This more radical approach would reduce the number of NICCs by almost two-thirds to about 17 and the number of Ministerial appointments to say 350. Regional Councils would also need 'internal' specialisation and an increased burden on appointed members must be acknowledged. Some Councils might require more than one office, the sub-office dealing largely with complaints and local promotional work. The concentration of centres ought to avoid increasing staff numbers. Better training and organisation hold out the hope of an improvement in effectiveness.

50 Sub-regional arrangements would still be required to provide local contact between consumers and the NICCs. As suggested in the first option this could take a variety of forms, including the present type of local committee. The general aim would be to harness local contacts and representation both to the enhanced expertise and influence of the Regional Councils and their staffs while at the same time encouraging, through direct contact, the continued local settlement of many individual issues. Annex C refers to the possibility of sectoral NICCs sharing accommodation and support services at Regional HQs and sub-offices (along the lines illustrated in Table 3). These offices could form well-publicised complaint centres, with distinctive Post Office box numbers or postcodes, and with expert staff capable of handling (directly or by reference to other agencies) the whole range of consumer complaints with nationalised industries.

51 Adoption of this second option would, of course, require legislation, which the Government would not be willing to introduce unless it were fully satisfied that the advantages – a more authoritative and streamlined structure than under the first option – outweighed any possible disadvantages. The Government has, however, considered this option carefully and concluded that, given NICC members of the right calibre and commitment, this is both a workable and potentially highly effective structure. Annex C describes in detail how this might appear.

v Membership

52 Experience suggests that smaller Councils work more effectively than larger ones. The optimum size for the average energy NICC appears to be about 15–20 members; the TUCCs and POUCs could be slightly smaller, say 12–15. Nominations for NICCs are currently drawn from a wide range of bodies so as to obtain a balance of consumer interests and expertise. This process of trawling widely could be further widened. For example, the experience of past and present local authority members is invaluable as is their high public profile, but it is questionable whether, in any new machinery, local authorities should have a fixed quota of members on particular Councils. Local authority members of Gas Councils must by law be serving members of local authorities, which appears unduly restrictive. There could be more encouragement of self-nomination and wider sponsorship by bodies not directly approached by the Government. Legislation would be required to effect most of these changes.

53 Appointments to NICCs proper are made by Ministers; members of local committees are appointed by the NICCs themselves. Only Chairmen of National and Regional Councils are paid appointments. Reducing the number of appointments made by Ministers seems better achieved by reducing the number and size of bodies, rather than by further delegation. Centralised appointment-making is probably more economical, more likely to promote uniform standards and more widely tap sources than decentralised machinery and thus preferable except where the need for local selection is overwhelming.

vi Training, Staffing, Accommodation, Funding, etc

54 The scope for introducing, separately or collectively, some form of training programme for Council members and local representatives, possibly in conjunction with other organisations active in the consumer field, has already been mentioned. It is equally applicable to both structural options, as are most of the comments in the following paragraphs.

55 National and Regional Councils are served by a permanent staff often recruited or seconded from the industry concerned; their terms and conditions of employment are generally fixed by reference to that industry. Regional Secretariats service local committees, which have no staff of their own.

56 The number of staff varies considerably between NICCs even within the same industry. The possibility of a national staffing structure, more open recruitment and greater uniformity in pay and gradings requires close examination. There are obvious geographical and other obstacles to the establishment of a nation-wide service but interchange between NICC staff would promote the cross-fertilisation of ideas and experience and could help bring about a more consistent approach to the handling of common issues.

57 Because the NICC organisation relies on part-time members the Secretariats play a major role in determining both the overall efficiency of particular Councils and, in particular, the way in which complaints are handled. It is not to denigrate the work done by present staff to stress that the staff of NICCs must be as 'professional' as possible and that at the national level (particularly if the sectoral approach is adopted) pools of staff with legal, accountancy, economic and other skills are desirable. For Regional staff, training in complaints handling and in communication skills would seem appropriate. It does not necessarily follow that the NICCs would need to set up their own expensive training facilities.

58 Some rationalisation might be achieved through common occupation of premises and a pooling of facilities such as typing. Under the Sectoral NICC option it should be possible for regional bodies to share premises. Joint occupancy would assist the improvement of communications between the various NICCs mentioned earlier. Examination, possibly by the NICCs themselves, with some outside assistance, of the possibility of improving methods of handling paperwork, reducing and rationalising the production of annual reports, etc, would be profitable. The aim of such an examination would be threefold: to cut out waste; to promote effectiveness; and to increase public awareness of the NICCs' services. For example it might be desirable for the constituent Councils of the NICC covering one industry to dispense with separate regional reports without noticeable loss of regional autonomy, and concentrate upon making a single, more substantial, national report. At the other extreme, standardised complaint forms might be available at gas and electricity showrooms, post offices, stations etc for first stage complaint-making. National Councils, and particularly the Secretaries thereof, should regard the efficient operation of the Regional tier as a direct responsibility.

59 The NICCs are paid for by the taxpayer. They must be fully accountable, therefore, for the effective, economical and efficient use of the public money allocated to them. To this end, the Government will continue to exercise the necessary financial and other controls over the NICCs. This framework of control and accountability will be in line with the arrangements set out in *Non-Departmental Public Bodies: a Guide for Departments* (HMSO, October 1981).

vii Relationships with other bodies

60 One of the agreed aims of the *NCC* is the promotion of consumer representation in the nationalised industries. The NCC usually includes among its members individuals who,

while not representing the NICCs as such, are serving NICC Chairmen. There has grown up recently a measure of common thinking between the NCC and the NICCs at national level and some joint projects have been undertaken with individual NICCs. The NCC also provides some training facilities for individual consumer representatives, including NICC members. Ways in which the NCC might more consistently help the work of the NICCs deserve consideration.

61 There is scope for fostering closer contact and co-operation with the *CABx* both on casework and on training. Even in cases where the CABx have the greater expertise, early involvement of the appropriate NICC can be to the advantage of all parties, particularly where there is any threat of disconnection of gas or electricity supplies.

62 It is highly desirable that the Transport NICCs establish good working relationships with the appropriate consumer bodies dealing with London Transport, the PTEs and the airports, ie *LTPC,* the *TUACs* and *ACCs.* This might best be achieved by cross-membership between TUCCs and such bodies and by occasional joint meetings to discuss bus/rail or tube/air passenger interchange and similar issues of common interest.

63 Last, but by no means least, there is the question of relations with the *industries* themselves. The need for close working has already been stressed, but there remains the question whether it is desirable that the NICCs have representatives on industry boards, as Area ECC Chairmen currently sit on AEBs.

Scotland

64 In Scotland, the Secretary of State for Scotland is responsible for appointing the members of the Electricity Consultative Councils for the North and South of Scotland Districts. This mirrors the particular responsibilities which the Secretary of State for Scotland has for the electricity industry, where the Boards are organised to provide both generation and distribution of electricity.

65 Should reform without legislation prove to be the preferred option, then there will be no unique problems in its application to the NICC structure in Scotland. If however the sectoral NICC solution is favoured, then full account would have to be taken of the Secretary of State for Scotland's responsibilities for the electricity supply industry and transport. The possible development of a separate structure for the utilities in Scotland would have to be explored. Hitherto, for instance, the Scottish ECCs have not come under the umbrella of the Electricity Consumers' Council and their relationship to any GB body –

or a possible Scottish alternative – would have to be considered. It might be necessary to recognise that the solution best suited to Scottish needs may differ somewhat from the course adopted in England and Wales. The views of relevant Scottish organisations on the matters raised in this Consultative Document will be sought by the Secretary of State for Scotland.

Summary

66 In paragraph 29 we concluded that the NICCs are still needed but that reform is desirable. We have examined a number of issues – functions and priorities; powers; scope of industry coverage; structure; membership; training, staffing, accommodation, funding and the like; and relationships with other bodies. The two central points on which further consideration should be focussed are the structural framework of the NICCs and their working methods.

67 As regards the structural framework, the options are:

a *Limited reform without legislation.* This could involve a modest reduction in the number of existing NICCs but would not change their statutory responsibilities or the fundamental structure of the present system which is based on separate arrangements for each of the individual industries concerned.

b *More substantial reform, which would require legislation,* designed to reduce significantly the number of individual NICCs (say from 44 to 17) and to concentrate their responsibilities in a new structure focussed on three broad industry groups covering energy, communications and transport. There might also be some changes in the NICCs' statutory responsibilities and some extension to the scope of the NICC machinery.

The Government would welcome views on these options. For example, would more concentrated (and potentially more influential) NICC machinery be too remote from the industries with which it dealt? Are there sufficient practical benefits to justify standardisation of the NICCs' statutory responsibilities? Should the industry coverage of the NICCs be widened, or are the interests of consumers best served in other ways?

68 Improvements in working methods would be possible under either structural option. The Government suggests these improvements might include: a greater emphasis on efficient complaints handling; wider use of the 'value for money audit' approach that POUNC have been developing; a willingness to experiment with less rigid forms of local representation; better communication between and within NICCs; more effective self-promotion by NICCs and closer liaison with bodies such as the NCC, CABx and TUACs; and more systematic training of staff and members. Views would be welcome on the scope for improvement (not necessarily involving legislation) in these and other areas.

ANNEX A

EXISTING ARRANGEMENTS FOR REPRESENTING NATIONALISED INDUSTRIES' CONSUMERS

1 GAS

i There is a National Gas Consumers' Council (established under the Gas Act 1972) together with 12 Regional Gas Consumers' Councils (established under the Gas Act 1948) * which match the operating regions of the British Gas Corporation. There is no statutory limit on the number of Regional Councils or their geographical coverage, save that there must be separate Councils for Scotland and Wales. The Secretary of State may vary the number of Regional Councils by direction. Each Regional Council has a duty to appoint committees or individuals to be local representatives; such appointments are made in accordance with a scheme, which is subject to the approval of the Secretary of State. There are at present 63 local committees.

ii Appointments to the National and Regional Councils are made by the Secretary of State after consultation with such bodies as he thinks fit. In the case of the Regional Council, not less than two-fifths nor more than three-fifths of the members must be serving members of local authorities. The remainder are appointed to represent commerce, industry, labour and the general interests of gas consumers. Council Chairmen are appointed on a part-time basis (notionally 2 days per week) and are paid £6,025 per annum (National) and £4685 per annum (Regional). Deputy Chairmen and other members are unpaid, but may claim travel and subsistence and loss of earnings allowances.

iii The statutory functions and obligations of the Councils are:

a to consider any matters affecting the interests of gas consumers (generally or a particular class) including supply of gas or gas fittings, variation of tariffs and provision of other services and facilities, which are the subject of a report or representation made by one or more consumers to the Regional Council or by the Regional Council to the National Council *or* which appear to them to be matters to which consideration ought to be given;

b where action appears to them requisite on such matters, to notify their conclusions to the British Gas Corporation;

c to consider and report to the British Gas Corporation on any such matter referred to them by the Corporation;

d in the case of the National Council, to consider and report to the Secretary of State on any such matter referred to them by the Secretary of State, *or* in the case of Regional Councils, to consider and report to the National Council on any such matter referred to them by the National Council.

iv The British Gas Corporation is statutorily obliged:

a to inform the National Council of its general plans and arrangements for exercising and performing its functions in relation to the supply of gas and in particular any proposal to vary a tariff;

b to consider any reports or representations made by the Councils.

v After consultation with the Corporation, the National Council may make representations to the Secretary of State who may issue directions to the Corporation thereon.

vi The effect of these statutory provisions is that the Councils have a role in handling the complaints and enquiries of individuals, as well as in considering policy issues on behalf of consumers generally. In 1980/81 the Councils collectively dealt with 28,000 complaints. A little over one third (37%) related to sales and servicing of appliances; a further 13% to problems with central heating systems; disputed gas accounts and other charging issues accounted for 36%. On the policy side, the National

*Now governed by the 1972 Act

BRITISH GAS & GCC REGIONS

1 SCOTTISH
2 NORTHERN
3 NORTH WESTERN
4 NORTH EASTERN
5 WALES
6 WEST MIDLANDS
7 EAST MIDLANDS
8 EASTERN
9 SOUTH WESTERN
10 SOUTHERN
11 NORTH THAMES
12 SOUTH EASTERN

Council has recently dealt with gas tariff increases, long term pricing strategy, improvements in appliance quality control, energy conservation, wider sale of energy stamps and the code of practice on disconnections for non-payment of bills. The Regional Councils provide an input to National Council consideration of policy issues and also deal with regional matters, such as closure of show-rooms, keeping appointments for meter readings and service visits, supplies of spare parts and monitoring local implementation of the disconnections code of practice.

vii More detailed information on the resources and workload of the Councils is given at Table 2 at the end of this Annex.

2 ELECTRICITY

i There is a non-statutory Electricity Consumers' Council for England and Wales (established in 1977), together with 12 Area Electricity Consultative Councils (established under the Electricity Act 1947 as amended by the Electricity Act 1957); in Scotland there are two Consultative Councils, one each for the South of Scotland Electricity Board and the North of Scotland Hydro-Electric Board (established under the Electricity Act 1947 as amended by the Electricity Reorganisation (Scotland) Act 1954). Unlike the Regional Gas Consumers' Councils, the Electricity Consultative Councils are statutorily linked to the Area Electricity Boards, on the basis of one Council for each Board.

ii Each of the Consultative Councils has a duty to appoint committees or individuals to serve as local representatives; such appointments are made in accordance with a scheme which is subject to the approval of the Secretary of State. The English and Welsh Consultative Councils have, between them, 64 local committees; the Scottish Councils have 14.

iii Appointments to the Electricity Consumers' Council and to the English and Welsh Consultative Councils are made by the Secretary of State for Trade. Appointments to the Scottish Consultative Councils are made by the Secretary of State for Scotland. In the case of the Consultative Councils, not less than two-fifths nor more than three-fifths of the members must be drawn from panels of persons nominated by local authority associations. The remainder are appointed to represent commerce, industry, labour, agriculture and the general interests of electricity consumers. Council Chairmen are appointed on a part-time basis (notionally 2 days per week) and are paid £6,025 per annum (Consumers' Council) and £5,620 per annum (Consultative Councils); a Consultative Council Chairman is an ex-officio member of his Area Electricity Board. Deputy Chairmen and other members are unpaid, but may claim travel and subsistence and loss of earnings allowances, as also may local committee members.

iv The statutory functions and obligations of the Consultative Councils are:

a to consider any matter relating to the distribution of electricity in the area, including variation of tariffs and the provision of new or improved services, being the subject of a representation made to them by consumers (existing or prospective) in that area *or* which appears to them to be a matter to which consideration ought to be given;

b where action appears to them requisite on such matters, to notify their conclusions to the Area Electricity Board or to the Central Electricity Generating Board;

c to consider and report to the Area or Generating Board on any such matter referred to them by the Board.

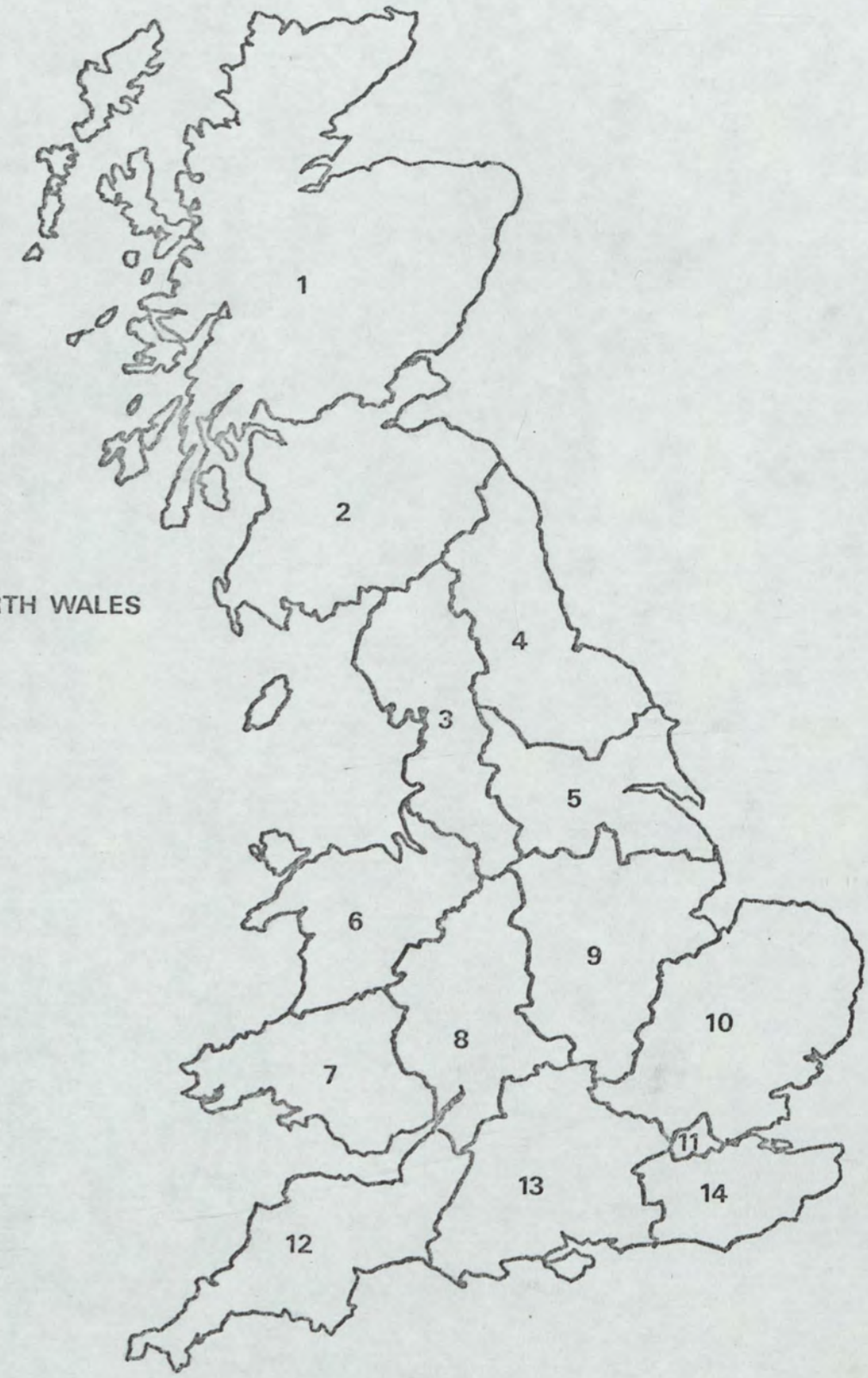
v The statutory obligations of the Boards and the Electricity Council are:

a that each Area Board shall inform the Consultative Council of its general plans and arrangements for exercising and performing its functions and the Council may make representations to the Board thereon;

AREA ELECTRICITY BOARDS AND ECCs

REGIONS

1 NORTH SCOTLAND
2 SOUTH SCOTLAND
3 NORTH WESTERN
4 NORTH EASTERN
5 YORKSHIRE
6 MERSEYSIDE & NORTH WALES
7 SOUTH WALES
8 MIDLANDS
9 EAST MIDLANDS
10 EASTERN
11 LONDON
12 SOUTH WESTERN
13 SOUTHERN
14 SOUTH EASTERN



b that each Area Board and the Generating Board shall consider any conclusions, reports or representations notified by a Consultative Council and that Council may, after consultation with the relevant Board, make representations to the Electricity Council on matters arising thereout;

c that, where it appears to them that a representation made under b above discloses a defect in the general plans and arrangements of a Board, the Electricity Council may, after consultation with the Consultative Council and the Board, give such advice to the Board as they may think fit for remedying the defect.

vi A Consultative Council may, after consultation with the Electricity Council, make representations to the Secretary of State, who may, after consultations, give directions to a Board for remedying any defect in its general plans and arrangements that may have been disclosed in the representations from the Consultative Council.

vii The position in Scotland is as set out above, with the difference that there is no intermediary process of making representations to the Electricity Council. References to the 'Generating Board' are not appropriate to Scotland, since the two Scottish Boards both generate and distribute electricity.

viii The terms of reference of the Electricity Consumers' Council are:

a to consider any matter affecting the interests of electricity consumers in England and Wales (generally or of a particular class) including supply of electricity, variation in tariffs, supply of goods and fittings, provision of other services and facilities, which has been the subject of a report or representation by a Consultative Council *or* which appears to them to be a matter to which consideration ought to be given;

b where action appears to them requisite on such matters, to notify their conclusions to the Electricity Council;

c to consider and report to the Electricity Council on any matter referred to them by the Electricity Council;

d to consider and report to the Secretary of State on any matter referred to them by the Secretary of State;

e to consider any information given to them by the Electricity Council with regard to their general plans and arrangements for exercising and performing their functions in relation to the supply of electricity;

f to make representations to the Electricity Council in respect of any such plans and arrangements;

g to make representations, after consultation with the Electricity Council, to the Secretary of State on any matters which have been considered by them.

ix The effect of these provisions is that the Councils have a role in handling the complaints and enquiries of individuals, as well as in considering policy issues on behalf of consumers generally. In 1980/81, the Consultative Councils collectively dealt with some 21,000 complaints. Over half (60%) were about electricity accounts and similar matters and 36% about retailing and contracting services etc. Given the independence of the Scottish Boards from the Electricity Council and the degree of autonomy enjoyed by the English and Welsh Area Boards, the Consultative Councils consider a broad range of policy issues from major questions of pricing and tariff changes to very specific, local operational matters. Examples include: easy payment schemes, debt collection procedures, maximum resale price of electricity, service and repair charges, billing frequency, meter-reading schemes and

TUCC Boundaries & BR Regions

monitoring the implementation of the code of practice on disconnections. The role of the Electricity Consumers' Council is to represent the interests of all users in England and Wales at the national level to the Electricity Council and Central Electricity Generating Board. Issues dealt with recently by the Council include: pricing strategy, energy conservation, generating capacity and plant margins, 'pay-as-you-go' facilities and reviewing the code of practice on disconnections.

x More detailed information on the resources and workload of the Councils is given at Table 2 at the end of this Annex.

3 COAL

i There is a Domestic Coal Consumers' Council (established under the Coal Industry Nationalisation Act 1946); it is a national body, with no regional sub-structure. Its members are appointed by the Secretary of State, after consultation with bodies representative of consumers of coal, coke and manufactured fuel and bodies representative of persons engaged in the sale or supply of solid fuel for domestic purposes. The Chairman is appointed on a part-time basis (notionally one day per week) and is not paid a salary, but receives a daily attendance allowance of £26.00. The Deputy Chairman and other members are unpaid, but may claim travel and subsistence and loss of earnings allowances.

ii The Council's statutory functions are:

> to consider any representations made to them by domestic consumers on the sale or supply of coal, coke or manufactured fuel *or* any matter which appears to the Council to merit consideration.

It is able to report and make recommendations to the Secretary of State for Trade or for Energy on any matter within its field of competence.

iii These statutory functions are less extensive than those of other NICCs; the Domestic Coal Consumers' Council's work is, in practice, rather different. It takes up policy issues, related to the cost, quality and availability of solid fuel, but it is less involved than other NICCs in complaints handling. The majority of complaints about solid fuel which are not directly resolved between customer and supplier are handled by the 11 regional panels of the Approved Coal Merchants Scheme (ACMS). The ACMS brings together the National Coal Board, wholesalers and retailers of coal, together with a representative of the Domestic Coal Consumers' Council. The ACMS defines minimum standards to be upheld by coal merchants and deals with customer complaints. In addition to the 11 regional panels, there is a National Panel on which the Chairman of the Domestic Coal Consumers' Council sits as assessor. In the last resort, the Domestic Coal Consumers' Council can arbitrate when agreement cannot be reached between the ACMS and a complainant.

4 RAIL AND FERRY TRANSPORT

i There is a Central Transport Consultative Committee with 11 Area Transport Users' Consultative Committees (established under the Transport Act 1947, but now governed by the Transport Act 1962 as amended). These Committees cover transport and other services and facilities provided by British Rail, together with the internal ferry services of the Scottish Transport Group. There are no local committees.

ii There is no statutory upper or lower limit on the number of Area Transport Users' Consultative Committees, except that there must be separate Committees for Scotland and Wales. Nor do the present boundaries of the areas served by the Committees match the boundaries of British Rail's five operating Regions.

iii Appointments to the Committees are made by the Secretary of State. There are no statutory limits on the size of the Area Committees. The Central Committee consists of a Chairman, the Chairmen of

the Area Committees and up to six other members. Chairmen are appointed on a part-time basis (notionally 1 day per week) and are paid £3,350 per annum (Central Committee) and £2,675 per annum (Area Committees). Other members are unpaid but may claim travel and subsistence and loss of earnings allowances.

iv The statutory functions of the Central Transport Consultative Committee are:

a to consider and, where it appears desirable, make recommendations about any matter, *except charges*, affecting the services and facilities provided by the Board, which has been the subject of representations to the Committee *or* which the Secretary of State has referred to it *or* which the Committee decide they should consider;

b to submit a report on any such matter to the Board and to the Secretary of State.

The Secretary of State may, on receipt of a recommendation from the Committee, give the Board such directions as he thinks fit with respect to the matters referred to in the recommendation.

v The statutory functions of the Area Transport Users' Consultative Committees are essentially the same as those set out above, except that the Area Committee must also consider objections by users to proposals to withdraw rail passenger services from any line or station. The Scottish Committee can also consider proposals for withdrawal of services by the Scottish Transport Group in respect of internal ferry services.

vi The Committees deal both with complaints by individuals and with more general policy issues. But the emphasis of their work is very much on policy; the Committees collectively dealt with less than 2,000 complaints from individuals in 1980. Policy issues considered recently by the Central Committee have included: train and station catering services, refurbishment of rolling stock, reduced fare policy, train punctuality, carriage of accompanied bicycles and conditions of carriage of express parcels. The Area Committees have considered revisions to timetables, station facilities, car-parking facilities, passenger information services and county public transport plans.

5 POSTS AND TELECOMMUNICATIONS

i There is a Post Office Users' National Council, with separate Country Councils for Scotland and Wales (all three bodies were established by the Post Office Act 1969). There is no structure of regional councils or local committees, but the Councils do receive advice and assistance from, and make a small financial contribution towards, the network of nearly 200 Post Office Advisory Committees, which are voluntary and non-statutory bodies, often under the sponsorship of Chambers of Commerce or Trade or of local authorities.

ii Appointments to the Councils are made by the Secretary of State after consultation. The National Council consists of a Chairman, the Chairmen of the Country Councils and up to 29 other members. The Country Councils consist of a Chairman and up to 24 other members. Council Chairmen are appointed on a part-time basis (notionally 2 days per week for the National Council and 1 day per week for the Country Councils) and are paid £6,025 per annum (National Council) and £26.00 per day's attendance (Country Councils). Other members are unpaid, but may claim travel and subsistence and loss of earnings allowances as appropriate.

iii The duties of the National Council are:

a to consider any matter relating to the services provided by the Post Office and British Telecommunications in the UK which is the subject of a representation made to the Council by, or on behalf of, a user *or* which appears to the Council to be one to which it ought to give consideration;

b if it considers that action ought to be taken with respect to any such matter, to give notice of that fact and of the action that the Council thinks should be taken to the Secretary of State and to the Post Office or British Telecommunications as appropriate;

c to consider and report on any matter relating to Post Office or British Telecommunications services which is referred to it by the Secretary of State or the Post Office or British Telecommunications;

d to consider any matter referred to it by a Country Council and to transmit to the Secretary of State, the Post Office or British Telecommunications, as appropriate, and the Country Council its observations thereon.

iv The duties of Country Councils are as at a–c above but restricted to services in that Council's area of the UK.

v The Post Office and British Telecommunications are obliged to consult with the National Council before putting into effect any major proposals relating to any of their main services so as to affect users.

vi The Councils have both a complaints handling and a policy role. The vast majority of complaints (16,800 out of 18,800 in 1980/81) are dealt with by the National Council. On the policy side, the National Council has recently involved itself in questions of postal and telecommunications tariff increases, postal delivery arrangements, relaxation of Post Office monopolies, London postal system problems, delays in providing or repairing telephones and the introduction of Codes of Practice on service quality and compensation. The Country Councils deal with issues specifically related to their areas, such as internal mail collection and delivery arrangements, use of air services for bulk mail transport, direct despatch of overseas mail, provision of telephone kiosks and shared-line policy.

vii More detailed information on the resources and workload of the Councils is given at Table 2 at the end of this Annex.

Note: The bodies discussed in Sections 1–5 above are those that are normally classed as the Nationalised Industry Consumer Councils; Sections 6–8 below look at the arrangements in sectors which are not covered by such Councils

6 BUS TRANSPORT

i Bus services are provided by the National Bus Company (NBC), the Scottish Bus Group (SBG), the London Transport Executive (LTE), the Passenger Transport Executives (PTEs), municipal operators and private sector companies. The SBG is a part of a nationalised industry, the Scottish Transport Group. The LTE is a public authority, established by the Transport (London) Act 1969, with a Chairman appointed by the GLC and members appointed by the GLC in consultation with the Chairman; it provides passenger transport (bus and tube) within, to and from Greater London. The PTEs were set up under the Transport Act 1968 and are jointly responsible with the Passenger Transport Authorities (PTAs) for providing co-ordinated public transport in the 6 English Metropolitan Counties and in Greater Glasgow. The PTAs (the Metropolitan County Councils in England and Strathclyde Regional Council in Scotland) appoint the members of the PTEs and have financial and policy control. The PTEs operate some services directly, but also enter into agreements with the NBC and British Rail. There are 51 municipal bus operators, ie services directly controlled by local authorities.

ii In 1979, the public sector operators provided nearly all the stage services and had a substantial share of the express market. This could change, given the greater degree of competition allowed by the Transport Act 1980. The lifting of restrictions on express services in particular has already stimulated

an increase in private sector activity in this market. The market shares of the various operators of stage and express bus services are shown below; the figures are for 1979 and are quoted on three different bases:

a by passenger journeys; b by vehicle kilometres; c by passenger receipts.

TABLE 1

Operator	Share of Stage Service Mkt			Share of Express Service Mkt		
	a %	b %	c %	a %	b %	c %
LTE	19	12	15	–	–	–
PTEs	31	22	27	–	1	1
Municipals	15	11	12	2	–	–
NBC	27	41	35	21	51	53
SBG	5	8	8	2	7	9
Total Public	97	94	97	25	59	63
Private Operators	3	6	3	75	41	37
All Operators	100	100	100	100	100	100

The entry ' – ' means nil or negligible, ie less than ½%

iii Although there is no single consumer council or similar body covering all bus users, there is a range of bodies which can represent user interests.

Local Authorities

iv County Councils* have statutory responsibilities to co-ordinate transport policy in their areas. Shire Counties are required, under the Transport Act 1978, to prepare public transport plans, and in the process are required to consult among others:

> 'transport user organisations and others appearing to the County Council to be especially concerned with public passenger transport matters'.

No such requirement is placed on Metropolitan Counties, but each of these counties, in its role as PTA, is responsible for the policies and budgets of the PTE. Under the 1968 Act the PTA and PTE have a joint duty to secure a properly integrated and efficient system of public passenger transport for their area. County Councils also have a right to make representations to Traffic Commissioners (see below) in respect of proposed stage carriage services and to appeal against decisions of the Commissioners. Local authorities are therefore involved in a continuous dialogue with both bus operators and the public.

* In Scotland – the Regional and Island Councils

Transport Users Advisory Committees (TUACs)

v These are non-statutory bodies set up in Metropolitan Counties* by the PTA and PTE. Each English PTE has at least one TUAC. Their terms of reference and membership vary. Their primary role is to consider and advise on local policy affecting public passenger transport, although they do receive representations from users. Membership largely comprises County or District Councillors, but other bodies are represented, eg the Transport Users' Consultative Committee is represented on the West Midlands TUAC.

County Passenger Advisory Committees (CPACs)

vi The CPACs, non-metropolitan counterparts to the TUACs, were proposed in the White Paper on the Nationalised Industries (Cmnd. 7131), published in March 1978. The SCNI, in its pre-legislative hearings in 1979, recommended that CPACs should be established for every county by legislation. This was not taken up and, as far as is known, no counties have yet set up CPACs.

London Transport Passengers Committee (LTPC)

vii The LTPC covers the whole of LT and is the Greater London equivalent of a TUAC; the main differences are: that the LTPC is a statutory body, that it is debarred from considering either fares or permanent closure of stations (the latter being a matter for the London TUCC) and that its membership is more widely drawn than most TUACs. Of its 28 members, 26 are GLC appointees and 2 are co-opted by the LTPC; of the GLC appointees, 9 are London Borough nominees, 2 are GLC nominees and 14 are drawn from names submitted in response to public advertisement. There has, in the past, been close co-ordination between the LTPC and the London TUCC, but the position is less satisfactory now that the Chairman of the LTPC no longer sits on the TUCC.

Traffic Commissioners

viii The statutorily independent Traffic Commissioners are responsible for administering the bus licensing system in the 11 traffic areas covering England, Scotland and Wales. Although their powers were reduced by the Transport Act 1980, they remain responsible for ensuring that operators (whether providing long distance or local services) are competent to run and maintain safe vehicles. They also retain regulatory control, through road service licensing, of the provision of 'stage carriage' services outside London (where other arrangements apply). In considering whether or not to grant a road service licence, Traffic Commissioners are required to take into account the implications of a particular service for the public interest, and to consider any relevant objections or representations, including ones from consumer representatives or individuals. The Commissioners also deal with a wide range of customer complaints in cases where the passenger has not received satisfaction from the operator, covering such matters as safety of vehicles, reliability of services and behaviour of crews.

The Transport Users' Consultative Committees

ix For two years after the closure of a rail service, the TUCCs have 'oversight' of replacement bus services. They have no other role in respect of buses.

7 AVIATION

Air Transport Users Committee (AUC)

i The AUC was established by the Civil Aviation Authority (CAA) in 1973, both to assist it in its duty to safeguard the interests of airline users and to handle complaints against airlines by individual

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* In Scotland – Strathclyde Region

travellers. Although it was originally closely associated with the CAA, not least by common chairmanship, it was decided in 1978 to make the AUC more autonomous, with its own chairman, non-CAA membership and separate offices. The CAA continues to appoint and finance the AUC, but this arrangement is not directly comparable with the 'in house' advisory groups that we discuss elsewhere, because the CAA is primarily a regulatory body for the aviation sector, rather than a nationalised industry. The AUC is not a statutory body, but does have statutory backing in the sense that the Civil Aviation Act 1971 imposed on the CAA a duty to further the reasonable interests of air transport users, in which task the AUC assists it. There is, therefore, some similarity between the status of the AUC and that of the Electricity Consumers' Council. However, the other facet of AUC work, as watchdog of the airlines, is very different from that of the other NICCs, in that British Airways is the only UK public sector body amongst the airlines and that is, in any case, to be privatised in due course.

Airport Consultative Committees (ACCs)

ii The British Airports Authority (BAA), which is responsible for Heathrow, Gatwick, Stansted and the four Scottish airports, is obliged by Section 2(8) of the Airports Authority Act 1975 to provide adequate consultation facilities for aerodrome users, local authorities and representatives of local interests. The ACCs are financed and their chairmen appointed by the BAA. Their remit goes rather wider than that of a purely user body, since it covers eg the interests of airlines (in their role as airport users) and the environmental impact of airports. In response to a perceived need for a purely user voice, Passenger Service Groups have been established, which deal specifically with those aspects of access to, and facilities at, BAA airports which directly affect passengers. Under Section 8(1) of the Civil Aviation Act 1968, the Secretary of State can designate airports for consultative purposes; this has been done in respect of, for example, the large local authority run airports at Luton, Manchester and Birmingham. These airports, too, have ACC arrangements involving representation of airport users.

British Airways

iii As well as coming (in common with other airlines) under the auspices of the AUC, British Airways has its own internal consumer representation system.

8 WATER

England and Wales

i The Water Act 1973 established, with effect from 1 April 1974, ten Water Authorities (WAs): 9 English and 1 Welsh. The Government's original intention had been to have one or more consumer consultative councils for each WA, made up of representatives of local authorities, domestic and industrial users, farmers, etc. In the event, it was decided not to proceed with this but instead it was arranged that a majority of WA members should be appointed by local government. Rather than being small management bodies, as at first envisaged, some WAs have large memberships (up to 62 on the largest).

ii The intention in 1974 was that there would be three strands of consumer representation:

the local authority representatives on the WA itself would, amongst other things, express the consumer's voice;

the officers of the WA would handle individual complaints;

WAs would form local advisory committees, composed of WA representatives and others with an interest in water provision.

iii The Act left formation of local advisory committees to the discretion of the WAs, and only one has elected to set up a formal system of committees for each of its divisions.

iv There has been pressure for reform of this structure. The NCC pressed for the creation of a National Water Consumers' Council and have also pressed for the inclusion of consumer representatives on WAs. The MMC report on Severn-Trent WA recommended a reduction in the size of the Authority's membership and set out criteria for effective consumer representation through a separate consumer body.

v The Secretary of State for Wales has laid an Order before Parliament reducing the membership of the Welsh Water Authority from 35 to 13, and removing the power of local authorities to appoint members to the Authority. The Secretary of State will himself appoint 4 members to represent their interests. He is also to ask the Authority to set up five local consumer advisory committees covering district council areas approximating to the various WWA divisions or combinations of them. The various consumer interests will be represented on these committees, the membership and functions of which will be laid down in guidelines drawn up by the Welsh Office in consultation with the interests concerned. These arrangements will be reassessed in the light of the outcome of this review.

vi In some areas, water supply (but not other water services – sewage, land drainage, etc) is carried on for the WA by one of the 28 statutory water companies; there is no consumer representation provision in respect of these companies.

Scotland

vii The position in Scotland is different. There are no WAs; water provision, sewage disposal, etc, remain direct responsibilities of local authorities. There appears to be general satisfaction with these arrangements.

TABLE 2: DATA ON EXISTING NICC STRUCTURE

	Cost to Central Govt in 1980/81 £000 *	Members: Statutory limits‡	Members: In post at 31 March 1981‡	Staff: Complement	Number of local c'ttees	Number of complaints received †	Meetings per annum
Domestic Coal Consumers' Council	82	No limits	16	2	N/A	N/A: dealt with by ACMS	4
National Gas Consumers' Council	)	20 – 30	25	)	N/A	N/A	6
Scottish GCC	)	20 – 30	27	)	5	2,871	4
Northern GCC	)	20 – 30	21	)	4	2,624	4
North Eastern GCC	)	20 – 30	21	)	4	866	4
North Western GCC	)	20 – 30	22	)	4	3,779	4
Wales GCC	)	20 – 30	22	)	8	1,666	4
West Midlands GCC	) 1500	20 – 30	24	) 103	6	2,921	6
East Midlands GCC	)	20 – 30	26	)	6	1,705	4
Eastern GCC	)	20 – 30	24	)	4	3,001	4
North Thames GCC	)	20 – 30	24	)	4	2,896	5
South Eastern GCC	)	20 – 30	25	)	4	3,279	4
Southern GCC	)	20 – 30	24	)	6	1,232	4
South Western GCC	)	20 – 30	21	)	8	1,191	3
Electricity Consumers' Council	)	No Statute	24	)	N/A	N/A	7
North Eastern ECC	)	20 – 30	26	)	7	545	6
Yorkshire ECC	)	20 – 30	24	)	7	1,571	4
North Western ECC	)	20 – 30	24	)	8	3,094	6
Merseyside & N Wales ECC	)	20 – 30	22	)	6	1,052	4
South Wales ECC	)	20 – 30	15	)	4	1,829	5
Midlands ECC	) 1130	20 – 30	21	) 74	5	1,476	6
East Midlands ECC	)	20 – 30	26	)	6	812	4
Eastern ECC	)	20 – 30	23	)	4	2,555	6
London ECC	)	20 – 30	17	)	5	2,613	7
South Eastern ECC	)	20 – 30	24	)	4	1,132	4
Southern ECC	)	20 – 30	25	)	4	1,597	4
South Western ECC	)	20 – 30	24	)	4	838	4
ECC for South of Scotland	) 139	20 – 30	30	) 8	9	1,433	5
ECC for North of Scotland	)	20 – 30	29	)	5	582	5
Central Transport Consultative Committee	)	See text	14	)	N/A	N/A	4
Scotland TUCC	)	No limit	14	)	N/A	309	4
Wales TUCC	)	No limit	12	)	N/A	104	4
North East TUCC	)	No limit	13	)	N/A	106	4
North West TUCC	)	No limit	17	)	N/A	228	6
Yorkshire TUCC	) 486	No limit	11	) 31	N/A	151	5
East Midlands TUCC	)	No limit	14	)	N/A	85	4
West Midlands TUCC	)	No limit	13	)	N/A	81	4
East Anglia TUCC	)	No limit	11	)	N/A	69	5
London TUCC	)	No limit	19	)	N/A	481	5
South East TUCC	)	No limit	14	)	N/A	128	4
South West TUCC	)	No limit	16	)	N/A	137	4
Post Office Users' National Council	)	Up to 30	20	)	N/A	16,797	8
POUC for Scotland	) 318	Up to 25	20	) 23	N/A	1,275	4
POUC for Wales	)	Up to 25	19	)	N/A	750	6

* Figures for cost to Central Government are estimates of outturn; they include expenditure by the Department of Trade, Property Services Agency and the Treasury Valuer.

† Figures for complaints handled are for the latest annual report period of the NICC concerned, and exclude those dealt with personally by voluntary members.

‡ National Chairmen and, where appropriate, Regional Chairmen are counted as members of National Councils.

REFORM WITHIN THE EXISTING STATUTORY FRAMEWORK

1 This Annex identifies those changes which are suggested in Annex C which could be made *without* new legislation. There would be no NICC coverage of water or buses.

First Tier: The National Councils

2 The five separate National Councils would continue as at present although possibly with membership towards the lower end of any statutory limits as follows:

NGCC	20–25
ECC	15–20
DCCC	c 15
CTCC	7–13
POUNC	15–20
TOTAL	c 85

3 Although the Councils would be separately staffed, the possibility of their sharing accommodation and support services could be examined. Other forms of inter-Council contact, such as programmes of Chairmen's meetings, would also be promoted. No increase in staff numbers is envisaged.

Second Tier: Regional Councils

4 Given the terms of the existing legislation, the second tier structure for the electricity and posts and telecommunications NICCs would remain as at present. This constraint, however, does not apply to the TUCCs or the Regional GCCs.

5 As under the 'Sectoral' option, the boundaries of the TUCCs could be matched more closely to the BR Regions. This would reduce their number from 11 to 6; the areas of coverage would be as described at Table 3. Although the geographical coverage of each of the English TUCCs would be doubled, there appears to be no case for larger and less wieldy memberships of Councils. The size of the secretariats of the English TUCCs would vary, but there would be no overall increase in staff numbers.

6 The number of Regional GCCs in England could be reduced from 10 to 4, but they would probably not have the same geographical coverage as the 'Utilities' NICCs shown in Table 3. A more likely division would be:

New GCC Area	BGC Regions covered	Location of GCC Headquarters
Scotland	Scotland	Edinburgh
Wales	Wales	Cardiff
North England	Northern N Eastern N Western	Manchester
Midlands	E Midlands W Midlands	Birmingham
S E England	Eastern N Thames S Eastern	London
S W England	Southern S Western	Bristol

As with the TUCCs, the size of the individual GCCs and the overall staff numbers should remain virtually unchanged.

Relationships between the First and Second Tiers

7 The proposals in paragraphs 13 and 14 of Annex C do not require legislation and could be implemented under this option just as well as under the 'Sectoral' NICC option. However, they would be more relevant to the NGCC and CTCC than to the unreformed ECC.

Third Tier: Local Representation

8 The need for local representation for gas and electricity, to provide grass roots contact with consumers, is not in question. The existing system of committees, however, is considered to be over elaborate and wasteful in terms of the voluntary effort being provided. Some reappraisal is required.

9 The new GCCs in England would in any case need to submit new schemes for local representation. Some reform would certainly be needed, since retention of the existing committee structure would lead to an unworkably large number of committees – 12 to 14 per region.

10 The Scottish and Welsh GCCs, together with all the Area ECCs, could be invited to reappraise their own schemes.

11 The different approaches for local representation described in paragraphs 19–21 of Annex C would be equally appropriate to this option.

Functions, priorities and controls

12 Although the non-legislative option would not offer the opportunity to bring the governing statutes of the NICCs closer into line, it would be desirable for the Government to issue guidance on the ways in which it believed NICC performance could be improved: eg by use of the 'customer audit' approach, by more widespread training, more effective complaints records, etc.

13 It would also be possible to bring the framework of control and accountability of the NICCs into line with the arrangements set out in *Non-Departmental Public Bodies: A Guide for Departments.*

'SECTORAL' NICCS

1 This Annex describes a possible sectoral NICC structure, ie the second option discussed in paragraphs 48–51. It would permit the inclusion of the National Bus Company, the Scottish Bus Group and the Water Authorities.

First Tier: The National Councils

2 There might be three National Councils:

A 'Utilities' Council	covering gas, electricity and coal and possibly water; with perhaps 20–30 members and a staff of about 25
A 'Transport' Council	covering rail and ferries and possibly the nationalised bus operators; with a membership of 15–20 and some 15 staff
A 'Communications' Council	covering the Post Office and British Telecommunications; with say 15–20 members and 20 staff.

3 The staff shown ought to be sufficient to enable each National Council to employ a small pool of professional personnel (with accountancy, economics, statistics and legal expertise), capable of advising the Regional Councils and of undertaking research.

4 Where practicable the Councils would share accommodation and support services; where not, they would encourage other close contacts. At the top, this might take the form of a regular programme of meetings for the Chairmen and Deputy Chairmen, analogous to those of the Nationalised Industries Chairmen's Group; also possibly involving the Chairman of the NCC.

5 Appointments to the National Councils (and to Regional Councils) would continue to be made by Ministers. The objective would be to obtain a mix of members with specialist interests in individual industries with nationalised industry affairs as a whole and with consumer affairs generally. Members would, of course, be of the standing necessary to maintain a policy dialogue with Board Members and senior management of the industries. Regional Council Chairmen could continue to be ex-officio members of National Councils. The workload of the National Chairmen and members would be greater than at present; unlike the present situation, some part-time paid Deputy Chairman might be needed.

Second Tier: The Regional Councils

6 The 'Utilities' and 'Transport' NICCs might each have four English Regional Councils together with Scottish and Welsh Councils. The regions could be defined by reference to the industries' regional responsibilities rather than by precise geographical boundaries of their own. Details of a possible regional scheme are shown in table 3.

7 The new Regional Councils, too, would have a heavier workload. There would almost certainly need to be specialisation within the Councils. Thus in addition to regular meetings of the full Council, 'specialised' members (probably supported by third tier members – see paragraph 19 below) would probably need to meet Regional Board members and senior regional management of their industries regularly, say quarterly. Even if a Council worked mainly through sub-committees a NICC region covering possibly 3 BGC regions, 3 Electricity Boards and 2 WAs (as might England North and East) would require both a substantial total Council membership and a considerable time commitment from each member. Assuming a Regional Council membership of about 20, members would probably have to devote at least 1½ days a month to NICC business. The burden on Regional Council Chairmen would be greater and on the 'Utilities' Chairmen almost certainly more than the present notional 2 days a week.

8 The 'Communications' NICC is less likely to require a full Regional Council structure. This is partly because both posts and telecommunications are industries where cost and quality of service are determined largely by the effectiveness of the total system; and partly because of the existence of the POACs. The POUCs for Scotland and Wales appear to have a specialized country role and would be maintained.

9 The numbers of staff needed are more difficult to forecast,particularly for the 'Utilities' NICC: they would depend on the volume of complaints, the degree of staff involvement in complaints handling, and the secretariat support needed by second (and, possibly, third) tier committees. Assuming that regional staff continue to receive most complaints and to pursue some of these direct with management, but that a substantial proportion, if not a major part,of the actual case work was carried out by third tier representatives, particularly the difficult cases, it seems possible that complements of the order of the following might be adequate:

'Utilities' NICC	Scotland	c	10
	Wales	c	5
	England (N & E)	c	15
	England (N & W)	c	20
	England (S & E)	c	25
	England (S & W)		10–15
		c	90
'Transport' NICC	Scotland		5
	Wales		5
	E England		5–10
	N W & Midlands		5–10
	W England		10
	London & SE		5
		c	40
'Communications' NICC	Scotland		2
	Wales		2
			4
			130–140

10 This amounts in all to about 200 staff, compared with an existing complement of 241. If, of course, a new structure generated greater interest in, and use of,the NICCs more staff would almost certainly be needed. Another major source of uncertainty is, naturally, the number of complaints about water and buses that the NICCs might receive.

11 Table 3 envisages sharing of offices by the 'Utilities' and 'Transport' NICCs permitting some common services, eg reproduction facilities. Sub-offices might be required to provide a more local contact point for consumers, handling not only general enquiries and complaints but also undertaking local promotional work. Such offices could also provide a meeting point for members. This would still result in a saving in accommodation costs over the present arrangements and could reduce the potential increase in travel and telephone costs.

12 While the work of the new Regional Councils might be similar to that of the present Regional NICCs, its scope could be wider eg for inter-regional or inter-industry comparisons about the speed and effectiveness of complaint handling, cost containment and the like. Comparative studies of disconnections of supply, or of the supply of coin operated meters, etc could prove illuminating and help bring all regions of all industries up to the standard of the best region of the best industry.

Relationships between the First and Second Tiers

13 With the considerable increase in the authority of the *English* Regional Councils, closer co-operation between National Councils and regions seems desirable so as to encourage the country-wide application of common standards. Possible approaches include:

increased contacts between National Council Chairmen/members (other than Regional Chairmen) and the Regional Councils/third tier on their work;

greater use of National Councils as a forum for resolving the most intractable individual and general complaints;

a measure of consultation with National Councils about the budgets of Regional Councils, or even giving the National Councils prime responsibility for proposing regional budgets;

secretaries of National Councils assuming line management responsibilities for regional secretaries.

14 The *Scottish* and *Welsh* Councils require a greater degree of autonomy. The Scottish Councils in particular, would be dealing with some different nationalised industries from their English and Welsh counterparts and greater discretion to determine their own priorities and argue their own case for resources could be appropriate.

Third Tier: Local Representation

15 The main raison d'être for the third tier would be that it should be capable of providing genuinely local contact points for handling complaints and giving guidance. It ought to be possible so to arrange matters that sufficient, but not excessive, work of a worthwhile character to attract unpaid volunteers emerged. The formality of the system should, however, be slimmer, less costly and less time-consuming than the existing structure of local committees.

16 Whether or not local representatives specialized in a particular industry would depend on local circumstances and be decided largely by Regional Councils. Doubtless some local representatives would be willing and able to deal with complaints about both gas and electricity or about rail and bus services.

17 It seems likely than an 'Energy' Council could require at least 600 local representatives to function effectively for Great Britain as a whole. For a 'Utilities' Council the figure would probably be upwards of 900. A 'Transport' Council might require say, 200–300, if buses were included; if buses were not included, it is doubtful whether any local representatives would be needed.

18 To take the England (N & E) Regional 'Utilities' Council as an example, the third tier structure might comprise *three* local committees based on the NICC Regional office and the two sub-offices; or *eight* local committees based on the three BGC regions, the three Electricity Boards and the two WAs; or *fourteen* local committees based on the fourteen counties covered by the region. The larger the number of such committees the smaller their membership will need to be to be economical of time and effort.

19 A completely different approach can be envisaged which dispenses with local committees. Instead, organised by Regional Councils, local representatives would have a programme of regular meetings with industry region management which they would attend when they had cases to raise, supplemented by informal get-togethers, say by county, to compare notes and to consider guidance issued by, or requests for advice received from, regional HQs. The variants on this theme are many. For example a substitute for the foregoing would be a programme of formal meetings with industry local management, supplemented by less frequent, informal meetings at regional HQ and sub-offices which combined training with a more general opportunity to exchange views. A formal local committee structure might prove highly effective in a relatively small region, but probably less so in a very large region.

20 There are about 100 CABx and 20 CACs in the region; some or all of these might be willing to act as venues for meetings of local representatives or, indeed, to replace the work of individual representatives.

21 If variety depending upon local circumstances and initiative are to be encouraged Regional Councils might be required to agree their third tier structure with their National Councils. At present Ministers are required formally to approve local representation arrangements. In practice such proposals are seldom questioned. It is arguable whether such approval should still be sought. An alternative to Ministerial endorsement would be for Government to issue, or to endorse National Council, guidelines for determining

third tier structures. Such guidelines might also cover more general topics such as support for local representatives from colleagues and from staff; ways of keeping Regional and National Councils informed of 'grass roots' opinion; the introduction of high, and uniform, standards of complaints handling and recording.

22 For the 'Communications' NICC the position is rather different since the 200 POACs are autonomous, voluntary bodies. One question that arises is whether POACs should continue to receive some financial support from the NICC.

TABLE 3: 'SECTORAL' NICCS

NICC STRUCTURE	INDUSTRY REGIONS TO BE COVERED BY NICC			LOCATION OF NICC OFFICES	
'Utilities' NICC	British Gas Corporation Regions	Area Electricity Boards	Water Authorities	Location of NICC Headquarters	Possible NICC Sub-Offices
Scotland	Scotland	S of Scotland N of Scotland	None	Edinburgh or Glasgow	Inverness
Wales	Wales	Merseyside & N Wales (part) S Wales	Welsh	Cardiff	North Wales
England North and East	Northern N Eastern E Midlands	N Eastern Yorkshire E Midlands	Northumbrian Yorkshire	Leeds	Newcastle Loughborough
England North and West	N Western W Midlands	N Western Merseyside & N Wales (part) Midlands	North West Severn-Trent	Manchester	Birmingham
England South and East	Eastern North Thames S Eastern	Eastern London S Eastern	Anglian Thames Southern	London	Ipswich
England South and West	Southern S Western	Southern S Western	Wessex S West	Bristol	Exeter
'Transport' NICC	BR Regions	National Bus Company Subsidiaries			
Scotland	Scotland	None: will cover the SBG		Edinburgh or Glasgow	
Wales	London-Midland (part) Western (part)	Crosville (part) South Wales National Welsh Jones		Cardiff	North Wales
East England	Eastern (outside the London area)	Northern United Yorkshire Woollen West Riding Yorkshire Traction E Yorkshire W Yorkshire E Midland Mansfield District Lincolnshire Trent Midland General Eastern Counties United Counties Eastern National		Leeds	Newcastle
N West and Midlands	London-Midland (part)	Cumberland Ribble Crosville (part) Potteries Motor Traction Midland Red Oxford S Midland		Manchester	Birmingham
W England	Western (part)	Bristol Hants and Dorset Devon General Western National Alder Valley		Bristol	Exeter
London and South East	Southern + London area	Gosport and Fareham Southern Vectis Southdown Maidstone District East Kent London Country		London	

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Chancellor of the Duchy of Lancaster

PRIME MINISTER

E(NI) MEETING ON 3 DECEMBER

I am afraid I cannot attend the meeting of E(NI) on 3 December to discuss the CPRS proposals in E(NI)(81)7 for developing the necessary business expertise of the departments sponsoring the nationalised industries.

I welcome the proposals made by sponsoring Ministers and would not want anything in this minute to hold up the action they have in mind. Nevertheless, I agree with the CPRS in thinking that more is needed.

One way of getting a firmer grip on the problem would be to have 2 or 3 Rayner scrutinies in departments which sponsor nationalised industries to throw further light on the nature of the task of a sponsoring department. What I have in mind is this. There would be value in a scrutineer looking in considerable detail at the actual day-to-day conduct of relations between a sponsoring division in a department and the nationalised industry concerned and from that drawing conclusions about how the relationship is in fact conducted; this might lead on to conclusions about how the relationship could better be defined and conducted. As part of the scrutiny, a look at the skills and knowledge of all the people actually involved in conducting the relationship could be expected to point up lessons for the future when compared to the skills and knowledge which would be required to carry out the job as re-defined; this might prove to be especially true in relation to financial management.

I hope that this suggestion would be backed by Ministers in sponsoring departments. The Secretary of State for Energy is, I know, already considering the possibility of a scrutiny covering his department's relations with the electricity industry. I should like to suggest that the Secretary of State for Industry and the Secretary of State for Trade contemplate scrutinies in parts of their departments also. It would obviously be sensible if all thse were conducted at the same time and in accordance with broadly the same terms of reference and if Sir Derek Rayner took a particular interest in at least one of them on your behalf.

If we go forward in this way I hope that we would put ourselves in a position to reinforce strongly the other action being taken by about the middle of next year.

Any help in other directions that MPO can offer will be at the disposal of departments. We have in particular done useful work in the field of "organisation development", the purpose of which is to bring about immediate improvements in the way work is organised and develop different and better working practices. My people are already discussing with officials in the Department of Industry how the techniques might with advantage be applied there and, as resources permit, we should be willing to do work with other departments.

I am copying this minute to colleagues in E(NI), Mr Ibbs (CPRS), Sir Robert Armstrong and Sir Derek Rayner.

Buchley.
(Private Secretary)

BARONESS YOUNG
2 December 1981

Approved by the Chancellor of the Duchy and signed on her behalf.

Reference P.0605

PRIME MINISTER

Quarterly Monitoring Report
E(NI)(81)9

BACKGROUND

Flag A – The Chief Secretary's memorandum, E(NI)(81)9, covers the latest quarterly monitoring report prepared by the Treasury on the 1981-82 External Financing Limits (EFLs) of the nationalised industries. It takes into account the position reported by the industries in their end-September returns. The purpose of the discussion is to ensure that sponsoring Ministers are pressing those industries which look like breaching their EFLs to take swift and effective action to correct the position. As the table attached to the officials' report shows, the industries in total are at present, and without further corrective action, expected to overspend by £726 million by comparison with their original EFLs but by £57 million compared with the revised EFLs which have now been agreed.

Main Issues

2. You will wish to hear from the sponsoring Ministers concerned with each of the five industries which are currently forecast to overspend; the key figures are set out in the following table:

£ million

	EFL for 1981-82		
	Original	Revised	Excess
British Telecom	180	380	70
NCB	886	1117	63
BR	867	920	17
BGC	- 317		33
BTDB	- 5		8
			191

You will also wish to check whether there are any problems on the other industries.

British Telecom

3. It is particularly unsatisfactory that British Telecom are showing an excess of £70 million over a target which has already been increased during the year by £200 million. At their meeting on 18 September, the former Sub Committee on Nationalised Industry Financing (ENF) agreed that there should be scope for significant savings in operating costs although it might be difficult to deliver all of these during 1981-82. To have any chance of eliminating, or at least substantially reducing, the excess it seems essential that British Telecom should now be pinned down to specific commitments on savings.

NCB

4. The position on the National Coal Board is similarly unsatisfactory. They now say that they will avoid an overspend of £63 million only if the Central Electricity Generating Board increases its purchases of coal this year. As the Chief Secretary points out, in his letter of 27 November to the Secretary of State for Energy, even if a satisfactory sales scheme were worked out it would lead to a corresponding loss of income for which no provision has been made in the NCB's 1982-83 EFL. The Secretary of State for Energy will not, however, be ready to comment on this tomorrow; he will be minuting you in the context of the MISC 57 report on coal which the Home Secretary will be putting to you next week (NB the Secretaries of State for the Environment and for Trade do now know of MISC 57).

Flag B — Prime Minister Mr Lawson hopes there will not be a discussion of the NCB EFL tomorrow, because the MISC 57 decisions (meeting planned for Dec 17) will affect the total & and because of the confidentiality of MISC 57.

MCS 2/12

British Rail and BTDB

£17m

5. It should be possible for British Rail to offset the relatively small excess on their revised EFL. It is recognised that there is little chance of the British Transport Docks Board being able to achieve further cost reductions to close their gap: their receipts are severely depressed,

and in the short term the cost savings from manpower reductions are being absorbed by redundancy payments.

BGC

6. The Chief Secretary will probably not press hard for changes by the British Gas Corporation. In future their EFL will be set post-levy and on that basis they would be overrunning by only £3 million. This situation arises because, when the levy estimate was fixed at the beginning of the year, assumptions were made about the amounts of gas lifted from southern basin fiels to which the levy applies. In practice BGC have lifted far more gas from the northern fields.

HANDLING

7. After the Chief Secretary has introduced his paper you might then invite the Secretaries of State for Industry, for Energy, and for Transport to say what action they are taking on each of their industries which look like overspending and to inform the Committee of any other problems which might arise on their other industries. You might then check with the Secretaries of State for Trade (Airways and Airports) and Scotland (Electricity and the Scottish Transport Group) whether they expect any difficulties with their industries.

CONCLUSIONS

8. In summing up, you will wish to record conclusions on the specific action which sponsoring Ministers have volunteered, or agreed to take, on the industries which are currently forecasting an excess, and to require them to report progress as soon as possible.

PLG

P L GREGSON

2 December 1981

P.0604

PRIME MINISTER

Proposals for Sponsor Departments
(E(NI)(81)7)

BACKGROUND

Flag A In E(NI)(81)7 the Central Policy Review Staff (CPRS) summarise the action being taken by each sponsoring Minister to improve business expertise in his Department and offer some possible additional measures for consideration.

2. The CPRS welcome the arrangements in Transport: the industries are already under a single command, and it is proposed to bring in a businessman at Under Secretary level to help deal with British Rail. They are generally content with the arrangements in Trade and the Scottish Office.

3. They would like business recruits to the Department of Energy, as indeed to other Departments, to include people with all-round business experience as well as specialists in finance. They want the new unit, which the Secretary of State proposes to set up, to be given specific functions relating to the three main energy industries and not to be exclusively advisory.

4. They point out that the Secretary of State for Industry has not yet made firm proposals. The Secretary of State will want to speak on this point at the meeting.

5. They recommend that both the Secretaries of State for Industry and for Energy should consider the appointment of a businessman as a top level personal adviser and they set out their ideas on this in more detail in the Annex to their paper.

6. The Chancellor of the Duchy of Lancaster will not be able to come to the
Flag B— meeting but she plans to send you later today a minute setting out the views of the Management and Personnel Office (MPO). I understand that she is likely to support the approach recommended by the CPRS and that she may propose that there should be Rayner Scrutinies in two or three sponsoring departments to establish precisely what the sponsoring divisions do now, and at what level, and what they

ought to do. Each scrutiny would then form a basis for deciding how the relationship between the department and the industry in question might be better defined and conducted; what sort of people should be recruited to sponsoring divisions; and what training they should be given.

7. In looking at these proposals it is worth bearing in mind that the sponsoring departments face very different problems which could call for different solutions. The main problem in Transport is British Rail and it is perhaps easier for them to have a unified command. The Department of Industry, in contrast, have a very varied portfolio: posts, telecommunications, steel, shipbuilding, BL and Rolls Royce. They also have the Industrial Development Unit which has several years' experience of bringing in businessmen for two or three year secondment at Under Secretary level and below. These have worked very effectively with their civil service counterparts. There might well be scope for building on this in the present exercise.

HANDLING

8. The Chancellor of the Exchequer has to leave at 5.00pm for a meeting with businessmen. You could complete discussion of this paper with the Chief Secretary representing the Treasury or, if necessary, you could leave it to the next meeting.

9. After Mr Ibbs has introduced his paper you will wish to consider the recommendations listed in its paragraph 13 and also any proposals put forward by the Chancellor of the Duchy of Lancaster.

10. The first two recommendations in paragraph 13 of E(NI)(81)7 do not call for discussion. You will wish to ask the Secretary of State for Industry to explain his proposals for his Department, and to ask him and the Secretary of State for Energy what they think of the idea of bringing in a top level businessman as personal adviser.

11. The Committee will then wish to turn to any proposals put forward by the Chancellor of the Duchy of Lancaster. These will be relevant to the CPRS's recommendation 13(v) - that sponsoring departments should develop plans to

accelerate the placing of personnel with business experience and training in executive sponsor posts. If a Rayner Scrutiny is proposed you will wish to establish to which departments it should apply - the most suitable candidates are probably Industry and Energy.

CONCLUSIONS

12. You will wish to record conclusions on each of the recommendations in paragraph 13 of E(NI)(81)7 and on any further work which the Management and Personnel Office might be invited to undertake.

PG

P L GREGSON

2 December 1981

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

Nat Ind.

NBPM

From the Secretary of State

CONFIDENTIAL

Terry Matthews Esq
Private Secretary to
the Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
London, SW1P 3AG

27 November 1981

Dear Terry,

DEBATE ON THE ROLE OF THE COMPTROLLER AND AUDITOR GENERAL - NATIONALISED INDUSTRY EFFICIENCY

TPY

The Chief Secretary wrote to the Secretary of State on 24 November. I am writing to confirm that he had no comments on the Chief Secretary's draft statement which reflects the conclusions of E(NI).

Copies of this letter to to the same recipients as the Chief Secretary's.

Yours sincerely,

JOHN RHODES
Private Secretary

CONFIDENTIAL

Original filed on:-
Govt Mach: Review of Exchequer + Audit Depts Pt 2

Prime Minister

Are you content with the draft statement?

MCS 26/11

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Biffen MP
Secretary of State
Department of Trade
1 Victoria Street
London SW1H OET

24 November 1981

Note
Told CST's office by telephone MCS 1/12

Yes

Dear John,

DEBATE ON THE ROLE OF THE COMPTROLLER & AUDITOR GENERAL

At the meeting of E(NI) last week we agreed that we would use the forthcoming Debate on the role of the Comptroller & Auditor General as the occasion for announcing the Government's proposals for improving the external scrutiny of nationalised industries' efficiency. I was invited to circulate the text of this part of the speech to colleagues on the Sub-Committee.

I now attach the terms in which I propose that the Financial Secretary will announce the Government's proposals during the course of the Debate. The text follows the recommendations of the NIP's Report and reflects the discussions we had in E(NI).

I should be glad if you and other colleagues will let me know quickly whether you have any comments.

I am copying to all Members of E(NI) and to Mr Ibbs and Sir Robert Armstrong.

Yours ever
Leon

LEON BRITTAN

DEBATE ON THE PAC REPORT ON THE ROLE OF THE C & AG - NATIONALISED INDUSTRIES

I should now like to turn to the nationalised industries.

2. The Government's reply to the recent PAC Report on the Role of the Comptroller & Auditor General (Cmnd 8323) promised a further statement on the question of improving the external scrutiny of nationalised industries' efficiency. In the White Paper the Government made clear - and I emphasise the point again today - that we fully share the PAC's concern about the need to promote the efficiency of the nationalised sector. This is particularly true where competitive pressures are weak or absent. However we were not convinced that it would be fruitful to replace the Monopolies & Mergers Commission as the appropriate body to undertake efficiency investigations so soon after its inception. As recently as last year Parliament legislated to give the Commission new powers to investigate the industries and they have made a promising start in using them. In the 4 studies completed during the last year - into the Inner London letter post, the Severn/Trent Water Authority, the CEGB and British Rail commuter services - they have successfully identified areas of weakness in the industries' operations. In the Government's view, as was explained in the reply to the PAC, the right course is to build on the existing structure not to supplant it.

3. The Government have therefore decided on a number of steps to strengthen and supplement the role of the Commission. First, there will be an increase in the scale of the Commission's operations. The intention is to increase the number of references to 6 in each year. The effect will be that each nationalised industry has at least one major reference every 4 years but that no individual part of an industry will normally be referred more than once every 4 years. The Commission's membership and staffing will be strengthened to deal with the increased workload. The Government will announce the programme of references annually for the year ahead.

4. Second, more effective follow-up - crucial if we are to get the best out of the Commission's reports. Although it is primarily for the industries to act on the reports' findings the Government

is strengthening the procedure for follow-up action. First, we intend to encourage the Commission to identify priorities in their recommendations, to quantify their proposals as far as this is feasible, and to make specific recommendations for action to implement them. The reports would of course continue to be published. But in the interests of accountability to Parliament a statement of the industries' response to the report will be made within 3-4 months of publication and this will be followed up by a further statement of progress after 12 months.

5. Thus the Monopolies & Mergers Commission in its strengthened form will remain the main instrument for the external scrutiny of these industries. But the Commission is not the only external body with a potential contribution to make. In the private sector good use is often made of the skills and expertise of management consultants. They have also been used in the nationalised industries to good effect on occasion on the initiative of either the Government or the industries. The Government believes that greater use could be made of such consultants to supplement references to the Commission wherever this would be appropriate and cost-effective.

6. These measures will supplement the Government's more general policies to encourage efficiency, notably the introduction of greater competition into the industries wherever possible. But this is a difficult area where there are no panaceas. We will continue to learn from our experience and build on it in the future.

cc Ad
Ad

When.

P.0583

PRIME MINISTER

Letter to the Nationalised Industry Chairmen
(E(NI)(81)8)

BACKGROUND

At the Committee's first meeting it was agreed that neither the CPRS's report on the nationalised industries nor an abridged version of it should be published; that a statement of Ministers' views and of issues for discussion should be sent to the Chairmen's Group as a basis for a preliminary discussion; and that further more detailed discussions should be held between sponsor Ministers and the chairmen of individual industries with the aim of agreeing a programme for the implementation of agreed recommendations by the end of January, 1982 (E(NI)(81)1st Meeting, item 2).

Flag A

2. The CPRS note, E(NI(81)8, covers a draft of the paper to be sent to the Chairmen's Group. The draft is based on detailed comments sent to the CPRS by the Chancellor of the Exchequer and by sponsoring Ministers. As explained in paragraph 3 of the cover note, the CPRS suggest that some of these points might best be incorporated in the Chancellor of the Exchequer's covering letter to the chairmen rather than in the main text.

Flag B

3. The draft picks up the specific proposals made by the Chancellor of the Exchequer in E(NI)(81)4. Paragraph 8 refers to the proposals for efficiency investigations discussed in E(NI)(81)6; in the light of E(NI)'s discussion the Treasury will prepare an annex to the note which will set out these proposals in more detail.

Item 1
Flag C

4. The chairmen of BL and of Rolls Royce are not members of the Nationalised Industries' Chairmen's Group and would not normally attend meetings between the Group and Ministers under the Chancellor of the Exchequer. The Secretary of State

for Industry recommends, and the CPRS agree, that on this occasion they should see the papers and be invited. This seems sensible provided that no other Minister feels that this would cause offence to the Chairmen's Group.

5. In preparing the draft the CPRS have taken account of the Chancellor of the Exchequer's wish to bring out the point that, in addition to requiring more from the industries, the Government is taking steps to improve its own arrangements for dealing with nationalised industry business. They have not, however, taken up the Chancellor's proposal that they should describe the new Ministerial Committee and its functions. Instead, in paragraph 6 of their draft, they have said "Ministers intend to strengthen their arrangements for collective consideration of matters affecting the nationalised industries". To go any further would be inconsistent with the Government's stance that details of Ministerial Sub-Committees of the Cabinet are not made public.

HANDLING

6. After Mr Ibbs has introduced the CPRS's paper you might ask the Chancellor of the Exchequer, who will lead the Ministerial team meeting the Chairmen's Group, for his views. Other sponsoring Ministers will then want to say whether they are broadly content with the substance and with the tone of the text. Any detailed points, and drafting proposals, could be sent directly to Mr Ibbs.

CONCLUSIONS

7. In the light of the discussion you will wish to:

i. invite Mr Ibbs to revise the draft text, as necessary, to take account of points made in the discussion and of any detailed points which members wish to put to him in correspondence, and then to submit the draft to the Chancellor of the Exchequer;

ii. to invite the Chancellor of the Exchequer:

a. to arrange for the Treasury to prepare an annex to the note describing the Government's proposals for efficiency investigations;

b. to send the approved text to the Nationalised Industries' Chairmen's Group as soon as possible.

PLG

P L GREGSON

17 November 1981

Ec Aw
AA

P.0582

PRIME MINISTER

Improving the Scrutiny of Nationalised Industry Efficiency

(E(NI)(81)6)

BACKGROUND

Para A — The Chief Secretary, Treasury's note, E(NI)(81)6, covers a report by the Interdepartmental Official Committee on Nationalised Industry Policy (NIP) chaired by the Treasury.

2. NIP's recommendations are listed in paragraph 31 of their report (the last page of E(NI)(81)6). They propose a strengthening of the Monopolies and Mergers Commission (MMC)'s role in investigating nationalised industries; supplementing the work of the MMC where appropriate by the use of management consultants; and further consideration of the possibility of expanding the work of commercial auditors in the field of value for money audit.

3. If the committee endorses these proposals, they will be put to the nationalised industry chairmen as a part of the issues to be discussed following the CPRS report - the next item on the agenda. The aim will be to make an announcement on efficiency audit before Christmas, as is necessary given the Government's undertaking to the Public Accounts Committee in the reply to their report on the role of the Comptroller and Auditor General.

4. These recommendations have been exhaustively discussed interdepartmentally and there should be no disagreement on them. The main possible doubt is over the proposal to supplement the work of the MMC by the use of management consultants. The Secretary of State for Trade has been concerned for some time that this might undermine the role of the MMC. Further consideration will be necessary, in particular cases, on whether management consultants should be appointed by the industries themselves or jointly by the department and the board concerned. This
Para B — is discussed in more detail in Mr Ibbs' minute to you of 26 October.

HANDLING

5. After the Chief Secretary, Treasury has introduced the report by officials you might first ask the Secretary of State for Trade to comment, since he is responsible for the MMC, and then turn to Mr Ibbs who will wish to refer to the points made in his minute of 26 October. It should be possible to avoid detailed discussion of the individual recommendations.

CONCLUSIONS

6. In the light of the discussion you will wish to record conclusions:

i. endorsing the recommendations in paragraph 31 of the report by NIP, and noting any particular points on them;

ii. recording any points arising out of Mr Ibbs' minute of 26 October on the use of management consultants;

iii. agreeing that, subject to further discussion with the chairmen, the aim should be to make an announcement on efficiency audit by Christmas.

PLG

P L GREGSON

17 November 1981

cc AW
AD

P.0581

PRIME MINISTER

CPRS Report on Nationalised Industries: Next Steps

(E(NI)(81)4

BACKGROUND

In E(NI)(81)4 the Chancellor of the Exchequer emphasises the major change of attitudes needed in Departments and nationalised industries, and hence the need for personal commitment by Ministers to bring this about. This will mainly arise in implementing the CPRS proposals, but the paper also seeks agreement to two further proposals:

i. A systematic review of the performance and prospects of each major industry, with reports to E(NI) spread over the period from January to May each year. This is consistent with the CPRS Report, which emphasised the need to focus on each industry's corporate plan and to review strategic objectives and options. It should open the way to a more orderly, and less pressurised, examination of the industries' investment and financing reviews in the summer and of their External Financing Limits in the autumn.

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

2. These two particular points, and the more general plea for better information and closer cooperation from the industries, are reflected in the letter to the nationalised industry chairmen (E(NI)(81)8) which is the third item on the agenda.

HANDLING

3. After the Chancellor of the Exchequer has introduced his paper you might ask Mr Ibbs and the sponsoring Ministers whether any of them wish to comment. It is

likely that the proposals will be acceptable and that they will not call for any detailed discussion. If E(NI) are to discuss most of the major industries in the period from January to May next year, it will be necessary for agreement to be reached as soon as possible on the programme; otherwise, the Committee will find itself with a pile up of work in the late spring. This is something on which the Treasury, in consultation with the CPRS, can take the lead.

CONCLUSIONS

4. In the light of the discussion you will wish:

i. to record conclusions on the two specific proposals summarised in paragraph 11(a) and (b) of E(NI)(81)4;

ii. to invite the Chancellor of the Exchequer to arrange for the Treasury, in consultation with the CPRS and with sponsoring Departments, to make proposals for a programme of the reports which E(NI) will consider in the first part of next year.

You can leave until the discussion of item 3 on the agenda questions on how these points should be communicated to the chairmen.

PLG

P L GREGSON

17 November 1981

CONFIDENTIAL

cc A. Duguid

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister

MCS

Prime Minister

NATIONALISED INDUSTRY EFFICIENCY: USE OF MANAGEMENT CONSULTANTS

1. I have seen Mr Ibbs' minute to you of 26 October about the proposal to use the US consultants, Maynard and Barry, in investigations of the efficiency of nationalised industries. The issue of whether this particular firm should be employed to carry out an efficiency audit of a nationalised industry seems to have become focussed exclusively on the two Scottish Electricity Boards; but Mr Ibbs' interpretation of how we have reached this position differs in some important respects from my own.

2. Following the MMC examination of CEGB, consideration was given in Ministerial correspondence to the possibility of an efficiency audit being conducted by commercial consultants; and my officials put it to the two Scottish Boards that they should consider this. This suggestion coincided with thinking at the two Boards and they have therefore welcomed it.

3. Mr Ibbs says that it has taken almost a year to arrive at a position where it is still not clear whether Maynard and Barry will be commissioned or not. In fact, however, we have reached no collective view on how far sponsoring Departments should be involved in a matter of this kind. The Chancellor of the Exchequer's ad hoc approach is clear from his letter of 5 November. So far as I am aware the Secretary of State for Trade still feels - and I agree with him - that we need to establish some ground rules.

4. Taking the Chancellor's and Mr Ibbs' latest proposals together, the proposition seems to be that I should tell the two Scottish Boards that:

(a) the studies they are planning to commission themselves are now to be commissioned by me and them jointly;

(b) I will choose the consultants;

(c) the Boards will pay the whole costs.

This would certainly be a departure from the normal way in which Ministers deal with nationalised industries, and it goes much further

than the Chancellor suggested in his letter of 20 May. My officials have had detailed discussions with the Boards; and in addition to discussing terms of reference etc, they have drawn the attention of the Boards to Maynard and Barry both in meetings and letters. The work of this firm in the United States has been particularly mentioned. The firm have themselves been in close contact with the Boards who are now carefully evaluating what Maynard and Barry can offer. The Boards are also looking at proposals from a number of well known UK consultants.

5. It would not be easy to explain to the Boards why, against the background of some months of discussion, I am now in favour of a joint study and that they should abandon their evaluation in order to employ Maynard and Barry regardless of their conclusions on the other consultants. If I am to take this line, it seems to me essential that I must offer to pay at least half the cost of the study. In that event Treasury would have to be prepared to provide additional finance since I have no provision in the relevant programmes to cover what would be a very expensive exercise. Even if extra money were provided, I have no power to force a consultants' study on the Boards or to insist that they employ Maynard and Barry; and if they dig in their heels, our only recourse will be to the MMC.

G.Y.

G.Y.

Scottish Office
17 November 1981

JU713

NBPM

cc J Kerr
A Walters
A Duguid

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

13 November 1981

Robin Ibbs Esq
Central Policy Review Staff
Cabinet Office
Whitehall

Dear Robin,

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

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

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

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

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

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

Yours ever

Patrick

NBPM A. Walters A. Duguid J. Vereker

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

01-211-6402

J R Ibbs Esq
Central Policy Review Staff
Cabinet Office
70 Whitehall
London
SW1A 2AS

12 November 1981

Dear Robin

CPRS REPORT ON NATIONALISED INDUSTRIES

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

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

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

SUGGESTED AMENDMENTS TO NOTE FOR NICG

Para 3 - omit

Para 4 - (As a consequential of deleting para 3,) first sentence; delete "these underlying", substitute "all": second sentence; delete "the" before "difficulties".

Para 5 - first two sentences to read, "A satisfactory relationship between Government and the industries requires that there should be clarity of objectives. Policy towards the industries needs to look well ahead." (Also, delete "Greater" from the sub-heading immediately before paragraph 5).

Para 10(iii) - extend to read "to identify the need for outside efficiency audits and to ensure that external efficiency audits, whether undertaken by the MMC or by any other body, are followed up ...." (This reflects the discussion we had on the outstanding recommendations).

Para 10(iv) - delete

Para 10(v) - delete

Para 13 - add, at the end of the sentence suggesting that executive Board members should be encouraged to take up outside directorships, the words "to the extent that the Secretary of State considers, in the individual cases, that this is compatible with their prior commitments to their Boards".

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

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

Yours sincerely

Nigel Lawson

NIGEL LAWSON

CONFIDENTIAL

AD JV
AW

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

NAT INDS
NBPM

Robin Ibbs Esq
Central Policy Review Staff
Cabinet Office
Whitehall
LONDON
SW1

10 November 1981

Dear Mr Ibbs,

NATIONALISED INDUSTRY EFFICIENCY

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

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

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

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

CONFIDENTIAL

CONFIDENTIAL

cc JV
AD

/MLS pa.

CHANCELLOR OF THE EXCHEQUER

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

The CPRS Report: State of Play on Recommendation

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

AFC

A F CASE
2 November 1981

EXTRACT FROM CPRS REPORT

J Summary of Recommendations

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

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

/.....

6. Responsibilities of non-executive directors of State (34) and to include the operation of an Efficiency Audit Committee (36) and advising on Board appointments and salaries (34)	E(N1)(81)2 Accept
7. A few senior executive positions in certain industries to be filled if possible by outside appointment (40).	E(N1)(81)2 Accept in principle
8. Execuitve directors to be encouraged to take non-executive directorships in the private sector (40).	E(N1)(81)2 Accept
9. Industries not fully exposed to competition to be subject to regular external efficiency audits (41), to be carried out for the time being by the MMC and management consultants (44), with an emphasis on proposals for implementation (41 and 44) on which the Efficiency Audit Committee of the Board can check that appropriate executive action is taken (45)	To be discussed at next E(N1) meeting, together with report from NIP.
10. In the longer term, particularly if Ministers decide to explore the possibilities for independent regulation, the arrangements for efficiency auditing to be subjected to a fundamental review (43).	E(N1)(81)2 Agree in principle but suggest clearer view needed on scope (eg should study cover alternatives other than regulation

/.....

11. The Chairman of the Board, where possible, to be separate from the chief executive (50), and, in some of the smaller and simpler industries, to be a part-time appointment (47).	E(N1)(81)2 Agree in principle
12. The Secretary of State to obtain acceptance from the Chairman, before appointment, of the strategic objectives for the industry (50) but to refrain from detailed interference (48): the possibility of linking Chairman's pay to the performance of the industry to be considered (49).	4 August meeting agreed on objective CPRS have been asked to look at pay/performance link.
13. Government to encourage Boards by praising good performance (51) and by planning appointments and re-appointments earlier (52), and to support the Boards closely in their efforts to deal with problems of union power (53).	E(N1)(81)2 Accept. Suggest there may be a case for regular review of Board performance, including CSI
14. Each of the main sponsor Departments to set up a Busniness Group (65-68), to be staffed by officials with a more specialised career progression (71) plus a few secondments from the business world (69), such staff to spend longer in each post	To be considered at next meeting. CPRS may put in further paper.

/.....

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

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

To be considered at next meeting.

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

Agreed on 4 August

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

Agreed in principle on 4 August

Se Vorkes
Duguid
Walters

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Nat Gas

CONFIDENTIAL

PRIME MINISTER

E(NI): CPRS REPORT ON THE NATIONALISED INDUSTRIES

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

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

G.Y.

2 November 1981

Ref. A05844

PRIME MINISTER

Follow-up to CPRS Report on Nationalised Industries

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

folder 1 folder 3 folder 2.

BACKGROUND

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

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

HANDLING

2. There are three papers:

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

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

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

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

E(NI)(81) 2: Outstanding Recommendations

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

(i) Principally for Government There are three matters for on-going work, where the paper is reasonably self-explanatory and only needs the Committee's broad endorsement at present. The first, monitoring, links with the wider Treasury concern about better information and could be discussed in that context.

(ii) For Immediate Consultation with Chairmen The handling paper proposes this as the next step, and includes a draft discussion document dealing with the three points here (as well as the need for better information). The most important is recommendation 6, on clearer responsibilities for non-executive Directors. The Committee should be asked to endorse these in principle, but not spend time now on detailed drafting.

(iii) Others A mixed bag, with notes on proposed handling, which the Committee will again need to consider individually but can probably endorse without much difficulty. The last (payment by results) is the subject of a separate submission of 19 October, proposing a CPRS study.

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

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

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

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

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

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

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

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

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

CONCLUSIONS

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

(i) Whether the outstanding recommendations in the CPRS Report listed in E(NI)(81) 2 should be endorsed in principle and handled on the lines proposed in that paper.

(ii) Whether the Chancellor of the Exchequer's proposals in paragraph 11 of E(NI)(81) 4 should be approved (ie a systematic annual review of each industry, better arrangements about investment programmes, and a change in attitudes).

(iii) Whether, as proposed in E(NI)(81) 3, the CPRS Report should not be published but ~~that~~ there should be a discussion document on the lines of the Annex to that paper, and the arrangements for further discussions should be as set out in paragraph 10 of the paper.

RTA

ROBERT ARMSTRONG

30 October 1981

cc ~~AW~~ ~~AJ~~ ~~JV~~

CONFIDENTIAL

Nat Fuel

√ MUS p1.

NOTE OF A MEETING HELD IN THE CHANCELLOR OF THE EXCHEQUER'S ROOM, HOUSE OF COMMONS

Present:

Chancellor of the Exchequer
Secretary of State for Industry
Secretary of State for Transport
Minister of State for Energy

Mr Ryrie)
Mr Burgner) H.M. Treasury

Sir Donald Maitland - Department of Energy

Mr Croft - Department of Industry
Mr Young - Department of Industry

NATIONALISED INDUSTRIES AND THE CPRS REPORT

The Chancellor said he had felt it would be useful to have a relatively informal discussion in advance of the meeting of E(NI) the following week on some of the central issues raised by the CPRS Report on the relationship between government and the nationalised industries. These issues seemed to him to be first the nature of the relationship itself - was the government to be seen as holding company, banker or both and secondly the relationship between the nationalised industries, their sponsor departments and the centre (Treasury/CPRS unit) and the organisational arrangements within each. He had the impression from the initial responses of sponsor Ministers that the business group idea suggested by the CPRS did not greatly commend itself to them; though it seemed to be generally agreed that action was needed to bring in business expertise and experience. It was his intention to strengthen the Treasury in this way.

2. The Minister of State for Energy said that the Secretary of State for Energy was by no means wholly critical of the idea of business groups, and indeed thought the idea had some merit. He believed it was most important to build up expertise at middle and senior management level in the relevant divisions of the department though at least ten

/extra posts were required

extra posts were required which presented difficulties in present circumstances. The Department was looking to see whether room for these additional posts could be found by savings elsewhere. He added that Mr Lawson regarded the Treasury role as absolutely vital, and believed there was scope for it to improve its organisation and performance in this area.

3. Sir Donald Maitland commented that in his view the essential responsibility for the relationship with a given nationalised industry should remain with the division concerned in the sponsor department. Clearly it was right that the divisions' expertise should be built up as much as possible; and it would be to the overall benefit if the essential Treasury role became more effective and prominent and if it had more resources to deploy.

4. The Secretary of State for Transport said that while he was sure that the changes proposed by the CPRS would help to strengthen parts of the chain in a way which was necessary, in his experience the fundamental problem was not really between the nationalised industries and departments, but arose when decisions became collective ones. Because such decisions were often taken for short-term reasons they could lead to sudden switchback decisions which led to an atmosphere of neurosis of the worst kind and interruption and impairment of the relationship built up between the sponsor department and the nationalised industry Chairman. It was most important that at the collective level decision taking should be properly informed, and based on an appraisal of long-term objectives rather than short-term or political considerations. For this reason he belived that the new Ministerial committee supported by a strong secretariat and advisory unit in the CPRS would be an important step forward.

5. The Secretary of State for Industry argued that the key to better monitoring of the nationalised industries must lie in better definition of the objectives which they were being asked to attain. At present the Government appeared to intervene in the affairs of the industries in many different ways and often with conflicting objectives. In his

/view the aim should be

view the aim should be to state a business objective for the industry - on growth, prices, investment and productivity - and then monitor progress against it. He saw no reason why the organisational arrangements for supervising and monitoring the industries should not differ between departments reflecting different circumstances and he saw no advantage in imposing a uniform pattern. The great weakness in the system at present was the lack of effective means of bringing pressure to bear on the industries when they failed to meet their objectives.

6. The Chancellor commented that at present collective Ministerial discussion of the industries tended to take two forms - first a look at particular industries: at the moment they faced a particular problem and an urgent decision was needed; and secondly in the course of the annual investment and financing review when investment allocations and EFLs had to be decided, together with quarterly monitoring throughout the year. What was missing was the opportunity to look at the industries in turn to give the Government as owner a better understanding of performance and prospects. This would involve measuring performance overall against agreed objectives, considering trends in pay pricing and productivity, cost control and financial performance. He envisaged that one possibility might be to have systematic reviews of each industry by E(NI) Committee on an annual basis; the Chairman and Board would come before the Committee for a detailed discussion of performance over the last year and aims and objectives for the coming year. This should lead to a much better understanding on both sides, and to a better informed collective decision taking when particular problems came up. This should mean fewer sudden and disruptive switches in policy, and the building up of a far better relationship between Chairmen, sponsor Ministers and Ministers collectively.

7. The Secretary of State for Transport suggested it was important to be clear whether it was intended that more decisions to do with the running of the industries should be taken collectively in future rather than by the sponsor Department. He believed this would be a mistake; the collective input should be on the broad assessment of

/priorities and

priorities and objectives, and measuring of performance, but once this was done the collective group should stand back and let individual departments develop relations with their industries on a consistent basis. One imoortant ooint which had been neglected so far in discussion was the domination of nationalised industry Chairmen by the trade unions. A constant and inevitable constraint on their freedom of action was how far they could go without a major crisis with the unions; and this question ought to be given sufficient weight at the centre.

8. The Secretary of State for Industry said that one way of improving the accountability of nationalised industry Chairmen for meeting the objectives set for their industries might be to make their remuneration dependent on their relative success or failure. It was also important to seize the opportunity when new appointments were made of making quite clear what the objectives were and what was expected of the new appointee. Part of the requirement might be for the Chairman to produce definite plans for hiving-off and privatisation rather than as so often in the past deliberately making progress in this area more difficult.

9. The Chancellor summing up said some interesting ideas had emerged at the meeting which could be taken further at the meeting of E(NI) the following week. In particular there was support for the idea of a collective appraisal of individual industries by E(NI) Committee which might involve an annual meeting between the Committee between the Chairman and Board of each industry. It had been generally agreed that while steps should be taken to improve the business experience and expertise of divisions in sponsor departments and at the centre; but the really crucial area was the general relationship between government and the industries particularly at the collective level.

Those present

Mr Burgner
Mr Christie
Mr Kemp
Mrs Case
Mr Norton
Mr Wicks
Mr Ridley
Mr Cropper
Mr Harris

cc CST
FST
MST(C)
MST(L)
Sir D Wass
Mr Ryrie
Mr Quinlan
Mr Byatt

P S JENKINS

28 October 1981

Prime Minister

Mr Ibbs may refer to this at E(N I) on Monday (see para 10).

MCS 30/10

cc A. Duguid (2)

CONFIDENTIAL

Qa 05707

Prime Minister

Suggest you endorse proposal at para 10 to discuss this issue?

MCS 27/10

To: PRIME MINISTER

From: J R IBBS

26 October 1981

Nationalised Industry Efficiency - Use of Management Consultants

1. At E(81)29th Meeting I was invited to report progress in the use being made of the consultants, Maynard and Barry, in investigations of nationalised industries' efficiency.

2. The then Secretary of State for Employment (Mr Prior) first raised the possibility of efficiency audits by Maynard and Barry in a letter to the Chancellor dated 19 November 1980. In this, he reported on the success claimed by Maynard and Barry's parent company (Theodore Barry and Associates) for its system of management audits on public sector organisation which it pioneered in the United States. Mr Prior suggested that there might be advantage in officials contacting the United Kingdom offshoot to explore whether there was anything to be learnt from the American experience.

3. Accordingly CPRS and Treasury representatives met with Maynard and Barry and were favourably impressed. Theodore Barry and Associates has extensive experience of management audits of US public utilities and claims to have identified cost savings averaging $6\frac{1}{4}$ per cent of utility turnover (range 4 - 17 per cent); in some cases identified cost savings were subsequently audited by third parties to confirm their achievement. The CPRS was particularly impressed by the end result of the audit, an implementation plan for cost savings endorsed by the management. That is to say, the audit produced a firmly agreed prescription with quantified targets, where possible, in addition to a diagnosis. This Theordore Barry achieved through establishing a sympathetic, rather than adversarial, working relationship with the utility. Moreover, follow-up audits to verify that the improvements had actually been achieved were becoming increasingly common in the US; these the utilities now positively welcomed since it allowed management achievement to be publicly recognised.

The meeting led the CPRS to the view that there would be considerable merit in trying out a different approach to efficiency audits along the lines proposed by Maynard and Barry to complement the MMC: such an experiment would risk very little and might indicate how the general system of efficiency auditing might be improved.

4. The Scottish Electricity Boards presented an ideal opportunity for such an experiment. In the light of the comprehensive inquiry by the MMC on the CEGB, clearly the Scottish Board required examination; the style and results of an audit by consultants would be directly comparable with the MMC report.

5. However, progress has been slow. The Secretary of State for Trade was clearly concerned at the policy implications of the engagement of consultants and in particular that their use could undermine the role of the MMC. A paper 'Improving the Scrutiny of Nationalised Industry Efficiency' prepared by the Official Committee on Nationalised Industry Policy (NIP) is scheduled for discussion at the forthcoming meeting of E(NI) Committee. This proposes improvements in the whole system of efficiency audits, including the possible use of management consultants. On management consultants, the paper recommends that whilst their use should be encouraged, they should be used pragmatically, leaving the MMC as the primary instrument.

6. The current position with regard to the two Scottish Boards is that they have recently agreed to be studied by management consultants. Terms of reference are almost settled and it is hoped that the preliminary study will begin before the end of the year.

7. However, it is by no means certain that Maynard and Barry will be the consultants engaged by either of the two Boards. The Government has no statutory powers to initiate efficiency audits other than by the MMC. In general, a joint appointment by the Department and a Board by mutual agreement would seem to be the best way of circumventing this problem. However, in this particular instance the industry itself will be responsible for the appointment of consultants, thought is is expected that the Secretary of State for Scotland will be associated with the study by means of a joint public announcement. Although Maynard and Barry are on the short-list, the Scottish Office say they cannot control which firm will be engaged.

No ret.. Powers to initiate efficiency audits.

8. Even if Maynard and Barry were to be engaged, appointment by the Boards themselves also raises the question of Scottish Office access to the findings. Although the Scottish Office have agreed with the Boards that they should receive a copy of the reports and be able to discuss the findings with the consultants, the primary loyalty of the consultants will be to their clients, the Electricity Boards. This could restrict information flow. As Mr Prior's original letter emphasised, Theodore Barry himself puts down at least part of his success in the US to the fact that he has always insisted that his firm's clients should be the public enterprise and its controlling authority. Re-opening the question of single or joint appointment would however run the risk of further delays when progress already has been painfully slow.

Conclusion

9. Two obvious points strike one about this account on progress on commissioning Maynard and Barry:

(i) the length of time it has taken, almost a year, to arrive at a position where it is still not clear whether they will be commissioned or not;

(ii) although there are no statutory powers, surely it will be possible informally to lean on one of the Boards to appoint Maynard and Barry?

10. Consideration at E(NI) of NIP's recommendations for improving the scrutiny of nationalised industry efficiency will provide an opportunity for Ministers collectively to discuss how effective use of these consultants may be achieved.

11. I am sending copies of this minute to the members of E(NI), the Secretary of State for Northern Ireland and to Sir Robert Armstrong.

JR

Nat Snd

From: THE PRIVATE SECRETARY

✓ MLS pa

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

A A Carter Esq
Private Secretary to
Minister of State
Civil Service Department
Whitehall
LONDON
SW1A 2AZ

26 October 1981

Dear Adrian,

In your letter of 14 September to Willie Rickett you raised the question of whether Northern Ireland bodies should be covered in the White Paper to be published early in 1982. Northern Ireland has always been excluded from the document in the past, and my Secretary of State is of the view that this should continue to be the case.

All the Northern Ireland bodies that might fall to be included in the White Paper are the responsibility of the Secretary of State for Northern Ireland only during what is, constitutionally, a temporary period of direct rule. It remains the Government's hope that at some future date they will revert to being the responsibility of a devolved administration in Northern Ireland. To break with past practice and include them in a White Paper presented by the Minister for the Civil Service might suggest that the Government accepted the permanence of direct rule. That could have serious political consequences in Northern Ireland.

We are not aware of any pressure for the inclusion of Northern Ireland bodies in the White Paper and would therefore prefer the exclusion to continue.

I am copying this letter to the recipients of yours.

Yours sincerely

Mike Hopkins

M W HOPKINS

KW

Not for PO

Prime Minister

(2)

MCS 23/10

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon David Howell MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1

23 October 1981

Dear Mr Howell

BRITISH RAIL HOVERCRAFT LIMITED

You wrote to Leon Brittan on 21 October to let him know of your intention to approve the proposed merger between British Rail Hovercraft Limited and Hoverlloyd Limited and to announce this today.

I am happy that you should make that announcement. You also note that satisfactory arrangements have been made to enable Hoverspeed to be classified as a private sector company. Perhaps I could take this opportunity to reiterate what Nigel Lawson said in his letter of 1 June about BRB disposals, namely that we must aim for a residual interest in these cases considerably smaller than the one third, which seems to be the Board's desired shareholding. Indeed, I hope you will be able to bring forward very soon some more substantial privatisation of this and the Board's other subsidiaries. We are due to talk about BREL very shortly.

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

Yours sincerely

Mark Fellowes (Private Secretary)

NICHOLAS RIDLEY

(Approved by the Financial Secretary and signed in his absence)

(4)

CIVIL SERVICE DEPARTMENT
WHITEHALL LONDON SW1A 2AZ
Telephone 01 273 5400

Sir Ian Bancroft G.C.B.
Head of the Home Civil Service

Prime Minister
To note.
This is Sir I Bancroft's reply to the letter from Sir R Armstrong (which was written at your request), attached. I understand that this will be on the agenda for E(NI) on 2 Nov, when you will be invited to decide whether this is or is not good enough.
MCS 14/10

Sir Robert Armstrong KCB CVO
Cabinet Office
Whitehall
LONDON SW1A 2AS

13 October 1981

My dear Robert,

CPRS REPORT ON THE RELATIONSHIP BETWEEN GOVERNMENT AND THE NATIONALISED INDUSTRIES

You wrote to me on 5 August about a point arising from the CPRS Report on the Relationship between Government and the Nationalised Industries. The Prime Minister had asked that the CSD, in consultation with the Departments concerned, should make early proposals for giving effect to the report's recommendation on the length of time in post of officials who deal with nationalised industries.

As you and No 10 know, I have consulted the appropriate Permanent Secretaries. There is general acceptance of the need for the more senior people to stay in post longer than they do at present. As a result of your letter, all the Permanent Secretaries concerned will bear the point carefully in mind in making their staffing dispositions. Several had indeed previously taken steps to promote the objective, either in their department as a whole of in specific areas (including the posts concerned with nationalised industries). For example, one department had taken as its aim a minimum of four years in post for an Under Secretary, 3 years for an Assistant Secretary.

The new succession planning arrangements will now play a part. These arrangements for senior posts (all Deputy Secretary and Under Secretary posts, and the more important Assistant Secretary-level posts) were described in the then Lord President of the Council's letter to the Home Secretary dated 24 February 1981. They mean that Permanent Secretaries will be making a comprehensive review of their posting plans for all key posts at least once a year, and of individual career plans for the officers concerned. One declared objective of these arrangements was to secure longer postings and greater specialisation, and generally to improve the level of professionalism not only in posts dealing with nationalised industries, but also other key policy areas and posts with major responsibility for controlling resources.

In response to your letter I can, therefore, give an assurance that departments will be paying special attention to key areas, including nationalised industry seats. Having said that, however, I should also point to some redeeming features in the present picture, and also to some factors which can make it difficult to increase dramatically the average length of posting.

The problem should not be overstated. Many of those moved into senior positions have worked in the same area earlier in their career, so that their knowledge of their subject is not derived only from their current posting. Moreover, though young people in the fast stream of the Administration Group, being groomed for rapid promotion, have to move fairly rapidly, there is elsewhere in the lower levels of the Civil Service a fair degree of specialisation in many cases.

Nonetheless the problem is real, and not easy to resolve. Among the constraints which beset posting policy are the facts that enforced moves (eg those resulting from retirements or deaths) and those dependent on the cooperation of others (eg secondments, training courses) do not always occur at the most convenient times; and that variations in the workload (often unpredictable) lead to fluctuations in the number of people required in particular areas. Indeed better career planning can at times increase movement: getting an individual into the job best suited to his experience and prospects may involve moving others who otherwise could stay put. An extra measure of turbulence is going to be added over the next few years, because of the inevitable effects of the general rundown in the size of the Service, reinforced by the special attention being given to the elimination of senior posts.

But, I repeat, the general thrust of the CPRS comment is recognised and accepted, and we shall be keeping a careful watch on this.

I am copying this letter to those who received your letter of 5 August.

Yours ever,

Ian

IAN BANCROFT

JU578

cc J. Vereker
A. Duguid
A. Walters

NBPM

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

13 October 1981

The Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Whitehall
London SW1P 3AG

Dear Leon,

POSTS AND NATIONAL GIROBANK: EXTERNAL FINANCING 1982/83 - 1984/85

As I undertook to do in my letter of 5 October, I have now seen Mr Dearing to press him on whether he could offer any further cuts in his external financing requirements for Posts and National Girobank for the period 1982/83 - 1984/85.

Posts

2 You will recall from my letter of 5 October that Mr Dearing's offer for the postal business was:

£m

	1982/83	1983/84	1984/85
External Finance	00	0	0

At our recent meeting Mr Dearing explained that the 1982/83 zero EFL already involved cuts in operating expenditure of £184m, or 7%, compared to the expenditure forecast in the business' Strategic Plan, together with a cut of £102m, or 45%, of the originally forecast capital spend. For the two later years there would have to be similar cuts in capital expenditure as well as reductions in operating costs.

3 I pressed Mr Dearing on whether the business could save more and he agreed that it might be possible to find a further £10m in 1982/83 (as a result of the pay assumption having been reduced from 5% to 4%) and to improve the 1983/84 and 1984/85 external

financing limits to -£15m each.

4 These additional savings would bring the EFLs for the years concerned to:

	£m		
	1982/83	1983/84	1984/85
	- 10	- 15	- 15
Cmnd 8175	- 15	- 15	- 15

I do not think it would be possible to extract any further savings from the postal business, as the capital spend has already been reduced to a level which will mean further delay to the mechanisation programme, retention of the vehicle fleet beyond an economic age and continued use of sub-standard buildings. The first two of these were listed as areas where remedial action should be taken by the Monopolies and Mergers Commission in its Report on the Inner London Letter Post, whilst some buildings already contravene Health and Safety and fire legislation. Mr Dearing added, however, that, if the rules relating to sale and leaseback were modified, he could reduce his external financing requirements in 1982/83 by a further £15m as a result of a proposed sale and leaseback of Postal Headquarters. In the next two years a change in the rules could lead to a further improvement of £30m each year.

5 I recognise that the latest offer still falls short of the external financing arrangements that the Postal business was asked to achieve on the basis of cuts of 6, 8 and 6% respectively in operating costs. I have therefore explored with Mr Dearing the possibility of further cuts. For reasons explained above, I do not see any scope for further cuts in investment in fixed assets. So far as working capital is concerned, the Post Office does not produce goods on its own account and working capital consists almost entirely of debtors and creditors. There is, I understand, very little scope for improvement in debtors. As regards creditors the Post Office is already taking steps such as delaying payments to overseas administrations. Its principal creditors are, however, within the public sector and improvement here would not help the PSBR.

6 80% of the operating costs of the Postal business are labour related and I do not believe that it would be realistic to reduce the pay assumption below 4%. As I mentioned in my letter of 24 September on tariffs, the Post Office is aiming for reductions in operating hours to reduce total labour costs. These savings

have so far been achieved largely by reducing overtime, but I have pressed Mr Dearing to consider the possibility of reductions in manning. Of course the financial benefits from this would take longer to materialise - indeed the position would worsen at the outset if redundancy payments were made - and I do not think it would be reasonable to press for much more in this area. In any event the savings already planned to achieve an EFL of -£10m in 1982/83 are consistent with a reduction in real unit costs of more than the 2% we have built in to the first year of the revised performance aim.

7 Apart from severe cuts in services, which besides being politically very sensitive would take time to negotiate, the only other possible way of bridging the gap would be through a tariff increase. To raise the additional £135m required in 1982/83 would need an increase of 6p/4p on basic postal rates in early January 1983, if the annual interval of tariff increases were not to be shortened. Besides being a risky policy due to the possibility of high traffic deterrence, the Board's public commitment to contain price rises to within the level of inflation makes it inconceivable that the Post Office would agree to such a course. Politically, too, such a course would be very dangerous.

National Girobank

8 So far as the National Girobank is concerned, I must start by saying that there is no defensible reason for it to be placed in the 'non-competitive' category. Girobank is in full competition with other Clearing Banks and there is evidence that it has influenced the clearers to improve their service to the public in a number of respects. In any event, it would be quite impossible for Girobank to achieve cuts in operating costs of £12m, £18m and £15m in the years 1982/83 to 1984/85 as required from non-competitive industries. If the repayment entailed had to be paid out of reserves, public sector finance would not benefit, since Girobank would require a compensating increase in its capital base in order to maintain its free capital ratio at the level regarded as necessary by the monetary authorities. Even with smaller costs, it is probable that by 1983/84 Girobank would require a capital injection to maintain its free capital ratio.

9 Moreover, I think it is relevant that Girobank has been subject to the special tax on banking deposits, which has not affected any other nationalised industry. Whilst it has been to some extent compensated by injections of additional capital, it does have additional debt to finance as a result of the levy.

10 Mr Dearing has offered a zero EFL for Girobank for each of the three years of the IFR. This would entail a cut of just over 2% in operating costs in 1982/83, as required of competitive industries. Over the IFR period as a whole Girobank's EFLs

would be improved by some £3m compared to those agreed last year for Cmnd 8175. The improvement in Girobank's 1982/83 financing limit has been achieved by a reduction in its pay assumption from 10% to 6½%. Given Girobank's traditional pay ties with telecommunications, which it hopes to break next year, and the levels of pay in competing banks, I do not think it would be realistic to reduce its pay assumptions further.

11 In conclusion, although I recognise that the outcome may be disappointing to you, both Posts and Girobank have made cuts which have brought their combined EFLs over the IFR period to within £2m of those agreed in Cmnd 8175. I believe that in achieving this the new Post Office Corporation has done as much as could reasonably be asked of it and I do not think it feasible to seek any further reductions.

12 Copies of this letter go to the Prime Minister, to recipients of my letter of 24 September and to Robin Ibbs.

Yours ever

Patrick

CONFIDENTIAL

NBPM yet

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

cc J. Vereker
A. Duguid
A. Walters

Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1

12 October 1981

Dear Chief Secretary,

NATIONALISED INDUSTRIES EXTERNAL FINANCING REQUIREMENTS: SCOTTISH ELECTRICITY BOARDS AND SCOTTISH TRANSPORT GROUP

No - E a. 30

At E Committee on 30 September sponsoring Ministers were asked to review the external financing requirements of their industries in the years ahead in an attempt to secure further reductions.

For the Scottish Electricity Boards the forecast requirements as set out in the Nationalised Industries IFR in July were as follows (at the Boards' estimated outturn prices):- £m

	1982/83	1983/4	1984/5
NSHEB	51	44	48
SSEB	265	280	242

Prior to the 30 September meeting the Boards had already offered overall reductions leading to the following revised forecasts:-

NSHEB	49	43	34
SSEB	216	274	256

These changes mainly reflected a review which SSEB had undertaken of the likely profile of cash requirements for Torness. Alex Fletcher discussed these forecasts with the Boards last Monday and they have now submitted a further revision, which shows the following requirements:

NSHEB	49	36	23
SSEB	216	251	222

These further reductions arise partly from lower assumptions on pay and on coal prices. The Boards are now assuming a 6% settlement next spring with increases in line with inflation thereafter. For coal they are assuming a 7% price increase this November and increases in line with inflation. In addition SSEB proposes to reduce its oil stocks by one-third by March 1983 and to postpone one of the transmission lines related to Torness, while NSHEB proposes to cut its manpower and cut or re-phase its planned investment. Both Boards have however had to assume higher interest rates

this year and next than in their original IFR submissions, and since their interest costs are roughly double their payroll costs this has cut the savings they can offer by approximately £15m in 1983/4 and 1984/5.

The Boards have assumed that work at Torness will continue on its present timetable and their inflation and tariff assumptions are unchanged from the IFR. On tariffs the Boards are assuming 11% increases in each of the next three years, compared with assumed inflation rates of 12%, 10% and 10%. The Boards have stated that in the absence of any financial target and of any information about our intentions for coal prices or domestic gas prices after next year their projected tariff increases merely represent working assumptions. If a different tariff policy is subsequently agreed, or if EFLs requiring real price increases are set for NCB, they expect their external financing figures to be adjusted accordingly.

I recognise that these reductions do not go as far in 1983/4 and 1984/5 as those your outlined in E(81)79. The Boards consider that they cannot propose cuts equivalent to 6%, 8% and 6% of operating costs when some 70% of their operating costs (fuel, rates, interest and depreciation) are beyond their control except in the long term. They have also expressed doubts, in view of the many uncertainties surrounding the figures, about the value of agreeing precise forecasts this far ahead. I note that Nigel Lawson, in his letter of 11 September, has proposed for this reason that no adjustment should be made to the White Paper forecasts for the NCB for the later years. I hope therefore that you will agree that further argument with the Boards about these very speculative forecasts would not be fruitful.

Finally I should point out that the revised forecasts which the Boards have already provided for 1982/3 may require amendment in the light of the revised assumptions which the Board has adopted, and may also be affected by any decisions we take on industrial tariffs or strategic fuel stocks.

The position of the Scottish Transport Group is that the following substantial savings have already been offered:

£m

1982/3	1983/4	1984/5
3.5	4	4

These figures compare favourably with the savings of £3m, £5m and £6m respectively which they were asked to make. The Group has worked hard in recent years to reduce the unit costs of the business and there is no scope for current cost savings in their bus operation which accounts for the bulk of their business. The savings have therefore had to be found mainly by cutting bus investment which had already been reduced substantially in their original investment review to take account of savings in capacity resulting from a substantial revision of services. Further savings in bus investment cannot be found in 83/4 onwards without seriously damaging the Group's prospects of remaining competitive and efficient in the longer term. Bearing in mind, moreover, that the Group is already earning a 5% real rate of return on its bus investment, I would find it impossible to defend further cuts.

I appreciate that the savings which you have asked me to find in STG are based on figures which assumed that there would be no new tonnage investment over the period of the review. My understanding

when this matter was considered in July was that, although specific consideration had still to be given to STG's case for new tonnage, investment in new ships would be allowable. Just prior to the meeting on 30 September however, your officials suggested that there could be no question of including investment in tonnage at all. If all tonnage investment were removed in addition to the savings which the Group have already offered, it would amount to reductions in the EFL of £6.2m, £11.6m respectively in 1982/3 and the two subsequent years. This would represent reductions of 21% increasing to 31% and as such is unacceptable to the Group and indeed to me. I still fully intend to investigate thoroughly the justification for the Group's new tonnage proposals but I do not want to see that option closed.

What the Group can offer at this stage is some postponement in their new tonnage investment in 1983/4 and 1984/5 so that the figures for the next three years can be abated to £3m, £3.4m and £4.8m respectively. However, the effect of cutting investment is to increase the Group's tax liability and reduce the Group's chance of meeting their financial target. Accordingly, the Group have suggested offsetting some of these investment savings on new tonnage. As a result, the Group are prepared to yield up the following reductions:

1982/3	1983/4	1984/5
£3.5m	£6.2m	£6m

These reductions amount to 12%, 17½% and 17% respectively on the EFLs proposed for these years.

You may care to note that I have still to give further consideration to the question of the level of revenue support which local authorities offer towards the Group's bus operations. These payments are part of the EFL calculation but are not a matter over which the Group have control. It is still unclear at this stage whether local authority support payments are likely to vary from the level we have already indicated to you, and I shall have to give this specific consideration once it becomes clear what line Lothian Region in particular are likely to adopt.

I am copying this letter to members of E Committee.

Yours ever

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

File Nat Ind

10 DOWNING STREET

From the Private Secretary

12 October 1981

Dear John,

Relationship between Government and the Nationalised Industries

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

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

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

Yours sincerely,

Michael Scholar

John Rhodes, Esq.,
Department of Trade.

RH

Not find Policy

1

PRIME MINISTER

cc Mr. Whitmore

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

Agree?

Yes MT

CJ.

Spoke to Barry Hilton to confirm.
CJ 12/10.

9 October 1981

Prime Minister

No action on this required now: it will be one of the subjects for discussion at the next E(NI) meeting.

MCS 9/10

cc J. Vereker
A. Walters
A. Duguid.

(2)

Not good policy

CONFIDENTIAL

MT.

Qa 05699

8 October 1981

To: MR SCHOLAR

From: J R IBBS

Nationalised Industries - 1981 Investment and Financing Review

1. At E(81) 29th meeting it was decided that sponsor Ministers should hold further meetings with the Nationalised Industries with a view to closing the gap between the industries' latest forecasts and the financing limits implied by the E Committee decision of 31 July. As invited by Mr Lankester's letter of 25 September the CPRS has worked closely with the Treasury and has also contributed to the briefings for sponsor Ministers for some of the biggest industries. In addition I accompanied Ministers at two of the meetings with Chairmen.

2. The result of this further round of meetings with the industries is that although some reduction has been achieved, largely because assumptions on wage settlements have been lowered, there is still a substantial gap in each of the years of review. For the immediate year of 1982/83 the shortfall has been reduced from £1,334m to £974m. I understand that Treasury Ministers will be consulting the Prime Minister about the extent to which this might be reduced further.

3. I remain convinced that the amount of reduction in his cash requirement that a nationalised industry Chairman will offer or tolerate depends on how strongly he is convinced of the necessity for the reduction. The extent to which Ministers are prepared to press for reductions in turn depends on how they weigh up the pain that a specific reduction would impose on an industry compared with the pain of corresponding options for other industries and the damage to macro-economic prospects caused by an excessive PSBR.

4. The present method of setting EFLs fails to bring out clearly the practical consequences for the industries of specific further reductions. Ministers are not presented with a coherent assessment of the least deleterious way in which industries could achieve their target EFLs. As a result a proposed EFL figure emerges after discussion as 'the lowest possible' whereas infact the position is not as simple or rigid as this and some potential further savings may be missed. There is, of course, a danger that the business implications will be exagerated by the industries in order to preserve further existing bids; alternatively, an industry may refuse to co-operate. These difficulties can only be countered by a sound relationship with the industry, skilful negotiations and firm probing by the sponsor department. All these I believe should evolve from the CPRS recommendations for an improved relationship.

5. For the future a better understanding within sponsor departments of each industry as a business would help to reveal the implications of further cuts and enable better judgements to be made. There is probably neither the time or the knowledge to tackle the problem in this systematic way to arrive at figures for 1982/83. However, in the absence of such information I would myself not easily be convinced that the reduced figures are the minimum obtainable.

6. One specific area where I believe there may still be some scope for economies in several industries is working capital. While there is little chance of exposing the potential savings in time to meet present EFL deadlines, one way of pressing on towards achieving them would be to arrange for firms of accountants with appropriate experience to review working capital management in some of the major industries. It should be possible to complete such studies quite quickly and to establish the extent of potential savings. The industries could then implement the necessary cash conserving policies in the fifteen months or so remaining to March 1983.

7. Finally, although the financial year 1982/83 is the immediate problem, it is important not to neglect the projected shortfalls

for 1983/84 and 1984/85 in the expectation that these can be solved when they in turn become an immediate problem. Rather than wait for the next IFR review, work should continue now, on the lines suggested, to define realisticly tight medium turn financial paths for the industries, assessed in the light of the business implications for the industries themselves.

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

JR

CONFIDENTIAL

✓ J. Vereker
A. Walters
A. Duguid

Nat Ind
NBPM yet

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

5 October 1981

The Rt Hon Leon Brittan, QC, MP
Chief Secretary to the Treasury
H M Treasury
Parliament Street
LONDON
SW1P 3AG

Copies to

E Committee
Sir Robert Armstrong

Dear Leon,

EXTERNAL FINANCING OF NATIONALISED INDUSTRIES

1. I have been back to the nationalised industries for which I am responsible in the light of the discussion in E Committee on 23 September and this letter reports the current position.

BRITISH TELECOM

2. For British Telecom the gaps to be filled in respect of the three financial years 1982/83, 1983/84 and 1984/85 were £248 million, £363 million and £394 million respectively. You and I were also concerned at the possiblity of BT requiring more financing this year than the EFL permitted.

3. BT insist that they have never accepted that the EFL of £380 million for 1981/82 was realistic and believe that they had an understanding that the Department would consider a higher figure this Autumn when the external management consultants had reported. They believe they have done well to contain the projected EFL overrun to £70 million. BT have undertaken to continue to do all they can to improve the position further. I, for my part, have said that they must stay within the EFL that has been set. The gap remains and I shall have to discuss the matter with them further.

4. For 1982/83, Sir George Jefferson believes he can fully meet our needs. He is only able to reach that view by arguing that he should be relieved of the obligation to pay out £90 million (and larger sums in later years) to fund members of the Post Office Superannuation Scheme and that the major part of the proceeds of any BT bond should be used to fill the financing gap remaining after making the savings indicated in paragraph 5 below. You, on your part, could not accept either point as argued and they are both matters for separate consideration. I consider, however, that Sir George's arguments should be allowed some weight in considering whether any eventual EFL shortfall is

acceptable. BT do not accept that between the two E Committee discussions their bids had increased. Their requirement prior to August had been £586 million and they believe that the reduction of £41 million between the two E Committee discussions represented a serious contribution to our problem.

5. BT now offer a staff freeze, savings on capital and working capital and a pay assumption of 5½% (the aim being to settle at 4-5%), only part of the benefit of which would be passed on to customers in the form of lower price increases. These together amount to £110 million. The Department has not worked over these figures but the position for 1982/83 is that BT have found over half - £151 million - out of the £289 million gap between their proposal in July and our own proposed external financing figure of £297 million. We shall now need to consider whether the revised BT proposal is acceptable.

6. For the following years, BT have not produced any proposals but, in the light of the undertaking already received, and other possibilities, I believe I can negotiate substantially lower figures.

POST OFFICE.

7. For the Post Office the 1982/83 gap is £160 million towards which, as you will know from our correspondence, the Corporation have offered £27 million (ie a zero EFL) and have reduced their pay assumption to 4%. I shall be seeing the Chairman later today to examine with him what more can be achieved for that year and what the implications would be for the later years of the IFR. I shall let you know the outcome. Useful further savings could, I understand, be made through a more efficient use of the Post Office's property assets, although this is largely dependent on a relaxation of the rules covering sale and leaseback, a matter on which I believe David Young is already in touch with you.

NATIONAL GIROBANK

8. I shall also write more fully about National Girobank following my meeting with Ron Dearing today. Girobank has reduced its assumptions on pay and is able to offer a zero EFL in 1982/83. This would entail a cut of £4.4 million equivalent to something over 2% of operating costs and there should also be some savings in the later two years. I do not, however, see any likelihood of Girobank being able to make the cuts of 6%, 8%, and 6% respectively in operating costs which your proposal would entail. In this context I note that Girobank has been categorised as non-competitive. This is clearly an error and I shall return to the point when I write to you about the outcome of the meeting with Ron Dearing.

BRITISH STEEL CORPORATION

9. BSC have as you know, put forward no proposals in respect of the various years and therefore the IFR figures, from which Treasury cuts are being imposed, are themselves extremely artificial. I shall not receive the BSC Plan until next month. I have, however, had a frank discussion with Ian MacGregor. He was planning in terms of external financing of £450 million in 1982/83, £200 million in 1983/84 and £10 million in 1984/85. Although in aggregate these figures are within the target E Committee are seeking, the figure for the coming year is much too large. I have told him this. Ian MacGregor has in turn made it clear that, if the cash allocation which he regards as necessary is significantly reduced, he cannot bring the Corporation back to viability: he points out that major closures would in the shorter term cost more cash and that therefore this path provides no solution to our problem.

10. The position, is, I recognise, most unsatisfactory. There is , however, in my view no doubt about Ian MacGregor's determination to do the job for which we appointed him and I am impressed by his firmly stated intention to permit no increases in pay (in money terms) over the three year period which are not clearly met out of genuine productivity improvements. While, of course, all is to play for in the Corporate Plan discussions, it would be wrong of me to accept any reduction in the £350 million figure for 1982/83 in the paper you circulated E.

BRITISH SHIPBUILDERS

11. For British Shipbuilders we also have the problem that to choose figures now means pre-judging Corporate Plan discussions. As you know, BS contributed significantly to the first round of savings by reducing their External Financing Requirement by £60 million but your officials will know that the figures made no provision for the cost of any reduction in naval or merchant shipbuilding capacity or for the additional Intervention Fund likely to be needed to sustain BS's merchant shipbuilding capacity. In further discussion with BS the figures have been revised to take account of the extra Intervention Fund needed.

12. I shall, of course, be examining BS's needs when considering their Corporate Plan but in cash terms over the next three years the provision of Intervention Fund is cheaper than closures. To offset the additional Intervention Fund needed, BS have accepted a saving of £5 million a year which results from lowering their wage assumptions. BS's revised IFR is, therefore, as follows:

	1982/83	1983/84	1984/85	Total
		£m		
March IFR	147	136	88	371
September IFR	130	110	71	311
Additional IF	0	+5	+15	+20
Wage Saving	-5	-5	-5	-15
Revised IFR	125	110	81	316

13. I do not believe that it would be useful to press BS to make further savings. My anxiety is that BS's assumptions in their Corporate Plan are optimistic and that the improvements for 1984/85 may not be secured. You are, of course, aware that over £100 million is included for the Trident submarine facility.

Yours ever

Paul

cc J. Vereker
A. Walters
A. Duguid

Nat Ind

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

01 211 6402

Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament St
London SW1

5 October 1981

Dear Chief Secretary,

CPRS REPORT ON THE RELATIONSHIP BETWEEN GOVERNMENT AND THE NATIONALISED INDUSTRIES

Robin Ibbs sent me a copy of his letter of 24 September to you.

We must obviously do what we can to ensure that this report does not itself become a source of friction with the nationalised industries, and I therefore support his suggestion that you might contact Robert Marshall and promise consultation as soon as Ministers have decided, in principle, on the main recommendations.

When we resume discussion of the CPRS report we shall, of course, need to consider the points Robin Ibbs raises about discussions with the chairmen and possible publication. You will recall from the Government's 9 July meeting with the NICG that the chairmen set particular store on consultation before anything is published and that we accepted the need for discussions with the industries on major changes. Consultation on matters of common concern (such as the size and composition of Boards and the improved monitoring information system which CPRS intend to suggest) makes obvious good sense, not only in order to improve relationships but also to reduce the risk of a hostile public reaction by the chairmen. I hope, therefore, that we can allow for this when considering publication and drafting of any statement about the Government's views in principle.

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

Yours sincerely,

R.D. Wilson

M. NIGEL LAWSON
(Approved by the Secretary of State
and signed in his absence)

copied to Parliament legislation.

NBPM

MCS

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nigel Lawson MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

30 September 1981

Dear Nigel,

NATIONALISED INDUSTRIES' STATUTORY BORROWING LIMITS:
INCLUSION OF BORROWING BY SUBSIDIARIES AND GUARANTEES

As you know, where suitable legislative opportunities present themselves we have been seeking to include provisions bringing borrowing by subsidiaries and guarantees within nationalised industries' statutory borrowing limits. I have been considering how to deal with this question in the light of your comments at our meeting on 21 September and the letters of 14 September from Keith Joseph and 15 September from John Biffen.

will request if required

I am concerned that it always proves difficult to reach agreement on the inclusion in legislation as it comes forward of desirable changes to the financial provisions governing nationalised industries. I appreciate that timing and the constraints of the legislative programme can argue against the inclusion of anything but the most essential measures. On the other hand, we cannot go on year by year allowing the financial framework within which nationalised industries are accountable to Parliament to become more obsolete and diverse. Apart from the intrinsic merits of a degree of standardisation, it becomes increasingly difficult to defend the position to the PAC.

In view of the shortage of time in which to resolve the doubts which you and others have voiced about the particular proposals in relation to statutory borrowing limits, I do not propose to press further for the inclusion of the relevant provisions in legislation in the next Session. I remain of the view, however, that these changes are among a number which it would be useful to make when possible, and in order to forestall in the future the sort of last minute exchanges we are having now I am asking my officials to set in hand, under the auspicies of NIP, a review of changes which might be made in the financial provisions governing the nationalised industries. The aim would be to draw up a checklist of such changes, in consultation with your Departments, which I hope we could then agree

should be implemented as and when legislative opportunities presented themselves.

I am grateful to John Biffen for proposing a measure of change in relation to the borrowing limit of British Airways. I think now, however, that it would be best to defer all such changes until the official group I have proposed has completed its work.

I am copying this letter to the Prime Minister, members of E(NF) and to Sir Robert Armstrong.

Yours ever,

LEON BRITTAN

JU 526

Prime Minister

This, and other Departments', responses to the CPRS report are being collated by the CPRS - with a view to a meeting under your chairmanship at the end of October.

cc Mr Dynes
Mr Wolfson

MT

PRIME MINISTER

THE RELATIONSHIP BETWEEN GOVERNMENT AND THE NATIONALISED INDUSTRIES

(meeting set for 27 October).

pt 4

In your minute of 4 August to John Biffen you asked sponsoring Ministers to let you have their proposals for a rapid improvement in the business experience and understanding of staff dealing with the nationalised industries. This is one important aspect of the wider problem of monitoring and control on which the CPRS is to let us have a paper to be taken in E(NI).

2 The performance of the nationalised industries for which this Department is responsible, in particular their heavy losses and the burdens they have placed on the PSBR, means that a great deal more has to be done to improve their management efficiency and tighten the monitoring arrangements in the Department to the extent needed. I have not yet had the opportunity to give this problem the attention it deserves and this note is therefore an initial response to your request.

3 Officials need to improve their capacity to probe and assess the arguments put forward by the industries. But the main responsibility for improving the nationalised industries' performance rests with their managements, so the first priority is to install, and to support, effective Chairmen and Board members. We must resist the temptation to convert effective monitoring into attempts to "second-guess" the managements on matters of commercial judgement.

Sponsorship arrangements

4 I do not favour putting all the sponsorship divisions in this Department together in one unit, as suggested by the CPRS, because:

a the public enterprises for which I am responsible are not a functionally coherent group (for example, British Steel has little in common with the Post Office, or Rolls Royce with British Telecom);

b the link in existing divisions between sponsorship of the public and private sectors of an industry makes good sense, particularly in the case of steel and vehicles, since I need to take account of the impact on the private sector of decisions affecting nationalised industries. It is hard enough now to hold the ring in disputes between the public and private sectors of an industry - to split responsibilities would make matters worse; and

c segregating public enterprises is against the trend of our privatisation policy.

5 The Divisions sponsoring nationalised industries already use the advice of accountants, economists, people from the financial sector and from industry seconded to the Department's Industrial Development Unit (IDU) and (in appropriate cases) engineers and

are adopting a multi-disciplinary approach to monitoring the industries' progress. The Department has found that it is more effective to make all the necessary expertise available to sponsoring divisions on a continuing basis in this way rather than in the form of ad hoc advice. The advantage of this approach is that those with professional experience can work closely with those in sponsorship divisions and become thoroughly versed in the specific characteristics and problems of each industry. I propose, therefore, to build on this existing practice by reinforcing the multi-disciplinary approach.

6 Where appropriate, representatives of the Treasury and CPRS can be associated with this multi-disciplinary approach to monitoring; for example, the Department has benefited greatly from Treasury and CPRS contributions to recent work on the telecommunictions investment programme. I should also mention that several of the sponsorship divisions have drawn on the business experience of my Special Adviser, David Young, and have found his help invaluable on a number of important issues.

Longer postings

7 It is already policy to arrange longer postings but implementation has difficulties. The need for continuity in relationships with the industries is fully recognised but in my view, if officials were restricted to a career mainly spent in sponsorship of public enterprises, their experience would be narrowed to an undesirable extent. They would be deprived of the

opportunity to learn how the private sector orders its affairs and to see how competition, the profit motive and the risk of bankruptcy improve performance in practice. The result might be to create a like-mindedness between officials and their opposite numbers in the nationalised industries and to obstruct our desire to see more private sector disciplines and pressures applied to state enterprises.

Business skills

8 These are as necessary for intelligent sponsorship of private industry as for public sector work. The Department of Industry has a good record in building up a pool of such skills.

9 Apart from business people seconded here, the Department has 25 direct entry principals with commercial or industrial experience, of whom 14 have held posts related to public enterprises. A growing number of officials have benefited from secondments to industry and from the scheme for part-time non-executive directorships in leading companies. (Since 1978 62 officials have been seconded to industrial or commercial organisations and 58 people have been received on secondment from such organisations). The recruitment of direct entry principals has unfortunately ceased as part of the manpower reduction programme. I suggest that we should consider lifting this restriction in order to recruit a limited number of people with industrial experience.

10 The Department is:

a planning an intensified effort on exchange postings with industry;

b considering secondment of more officials to public enterprises (secondments to BL and British Shipbuilders for example have proved valuable, as have inward secondments from the Post Office);

c continuing to recruit people of high quality from business on secondment to the IDU;

d considering a widening of the range of skills imported into the IDU, which is mainly financially oriented at present; and

e expanding the non-executive directorship scheme from the existing 10 posts.

These measures will increase the number of people suitably qualified for sponsorship work.

Training

11 The Department is reviewing its in-house training with the object of providing courses specially relevant to the needs of divisions sponsoring nationalised industries. Participation in

such courses could be offered to staff from the industries. The industries will also be asked to provide short "familiarisation visits" for officials joining sponsorship divisions. Officials are already taking part in courses run by private sector businesses and this might be extended to nationalised industry training courses.

12 A few officials have been sponsored on graduate courses at British and American business schools but this is an expensive form of training which cannot be made widely available.

13 I believe that the Department has already taken many steps to build the business dimension into its relations with nationalised industries. I plan to reinforce this impetus in every practicable way.

14 I am copying this minute to the recipients of yours.

PJ

P J
28 September 1981

Department of Industry
123 Victoria Street

CONFIDENTIAL

Nat Ind Policy

Nat Ind

10 DOWNING STREET

From the Private Secretary

Mr. Ibbs

Nationalised Industries

The Prime Minister was grateful for your minute of 24 September. As I told you, she agreed with your conclusion that it would not be appropriate to ask Lord Weinstock to help sponsor Ministers at their meetings with nationalised industry chairmen; and she is grateful for your suggestion that the CPRS should provide whatever help they can. She said it would be "wonderful" if you yourself could help out on the big EFL industries.

I have now written to Departments accordingly.

I am sending a copy of this minute to David Wright.

T. P. LANKESTER

25 September, 1981.

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FILE

JD

cc MOD SO WO DHSS CWO Trade (Prices) DOT DOE MAFF D/M LPO DOI HMT FCO HO D/N CO

10 DOWNING STREET

From the Private Secretary

25 September, 1981.

Dear Terry.

Nationalised Industries: 1981 Investment and Financing Review

As you know, at their meeting on 23 September, E Committee discussed a memorandum by the Chief Secretary on the 1981 Investment and Financing Review of the Nationalised Industries. In her summing up, the Prime Minister invited the Head of the Central Policy Review Staff to advise urgently on the possibilities of appointing an assessor to assist sponsoring Ministers in their further discussions with their industries and on the practicability of his making an effective contribution within the time-scale envisaged.

Robin Ibbs has now advised the Prime Minister that it will not be possible, in the time available, to find a suitable assessor who would make an effective contribution in assisting sponsor Ministers. But he has suggested that he and other members of the CPRS with business experience might be used, for the largest industries, alongside the resources in the Treasury to contribute to briefing sponsor Ministers for their meetings with Chairmen. The precise form of assistance that the CPRS would provide, including whether Robin Ibbs should be present at meetings with Chairmen, would of course be for discussion with the particular Departments concerned.

The Prime Minister has accepted this advice, and has asked that sponsor Ministers should take advantage of the CPRS offer of assistance on the lines Robin Ibbs has proposed.

I am sending copies of this letter to the Private Secretaries to the Members of E, Godfrey Robson (Scottish Office), John Craig (Welsh Office), Don Brereton (Department of Health and Social Security), Murdo Maclean (Chief Whip's Office), Peter McCarthy (Department of Trade), David Wright (Cabinet Office).

Yours ever.

Tim Lankester.

Terry Mathews, Esq.,
HM Treasury.

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ds

E(81) 29th Meeting COPY NO

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
WEDNESDAY 23 SEPTEMBER 1981 at 3.00 pm

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon James Prior MP
Secretary of State for
Northern Ireland

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

The Rt Hon Sir Keith Joseph MP
Secretary of State for Education and
Science

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon David Howell MP
Secretary of State for Transport

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

Mr Cecil Parkinson MP
Paymaster General

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Humphrey Atkins MP
Lord Privy Seal
(Item 3)

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Norman Fowler MP
Secretary of State for Social Services

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury

The Rt Hon Tom King MP
Minister of State, Department of the Environment (Minister for Local Government and Environmental Services)
(Item 1)

The Rt Hon Sally Oppenheim MP
Minister of State, Department of Trade (Minister for Consumer Affairs)
(Items 2 and 3)

Mr Malcolm Rifkind MP
Parliamentary Under-Secretary of State, Scottish Office
(Item 1)

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson
Mr D J L Moore

CONTENTS

CONFIDENTIAL

1. Mr Gregson
2. Sir Robert Armstrong

DJLM 24/9/81

E MEETING MINUTES (23/9/81)

ITEM 1

LOCAL AUTHORITY RATES

Previous Reference: E(81)27th Meeting, Item 1.

THE COMMITTEE considered a memorandum by the Secretary of State for the Environment (E(81)93) on measures to improve the accountability for the levying of rates by local authorities in England and Wales, and a memorandum by the Secretary of State for Scotland (E(81)90) proposing similar measures for application to the Scottish local authorities.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the Committee had asked him to make recommendations on how to give effect to their decision that any second supplementary rate increases proposed by a local authority should be subject to a mandatory referendum. He recommended that the question to be asked should be specified in the legislation and that it might be in the form 'do you agree that a supplementary rate of - p should be levied?'. The local authority would be free to issue separately, if they wished, a leaflet explaining why they needed the money and they should be required to finance the largest opposition party in printing and posting a leaflet opposing the proposal. If the referendum were favourable, the council could then levy a rate or precept no higher than that specified in the referendum. If the referendum were not approved, the council might be able to trim its expenditure to meet its revenue but, since by then it would be November, it was more likely that the council would find it impracticable to make sufficient economies in the remaining months of the financial year. In that event, he recommended that he

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should be empowered to grant temporary borrowing approval sufficient only to the council to meet its committed expenditure and that, to prevent the problem recurring in the following year, ~~that~~ he should have powers to prevent the authority from making the rate for that year before he had approved its budget. He ~~said~~ feared however, that this procedure could be exploited by hostile local authorities who would seek confrontation with the Government over details ~~over~~ about which Departments had little information and over the priorities to be given to services for which several Secretaries of State were responsible. For example, a controlling party, which had lost a referendum vote, ~~could~~ might resign its committee chairmanships and then make it impossible for the minority opposition party to carry on business. In view of these difficulties, his strong preference was to make the second supplementary rate subject to re-election of the council rather than to referendum.

THE SECRETARY OF STATE FOR SCOTLAND said that he proposed that he should include in the Local Government and Planning (Scotland) Bill provisions to enable him to intervene in the rate fixing process. If he were satisfied that, in determining its rate poundage, a Scottish authority had planned for an excessive and unreasonable level of expenditure he would direct it to use from the start of the financial year a lower rate of a prescribed amount. This lower rate would stand throughout the year unless a proposal to re-adopt the higher rate were endorsed by a referendum by 31 July. This new power, which was unlikely to be effective before 1983-84, would supplement his present powers to reduce Rate Support Grant to individual authorities. If necessary he could make use of both powers in dealing with an authority during the year.

In discussion the following ~~were the~~ main points ~~made:~~ were made on the Secretary of State for the Environment's proposals for England and Wales:

(a) It was generally agreed that, for the reasons advanced at the Committee's earlier discussion, it was preferable to make the second supplementary rate subject to referendum rather than re-election of the council. While there were undoubtedly risks that referenda could ~~in some cases~~ lead to difficult confrontations between the Government and a local authority, the problems ~~were~~ would not necessarily be so acute as envisaged by the Secretary of State for the Environment. Lothian Regional Council had just decided to make the full £30 million cut demanded of them, and to find the necessary savings in the rest of the financial year without compulsory redundancies or other painful consequences which they had hitherto claimed would follow. ~~Since~~ The new system, taken together with the detailed arrangements which ~~will~~ would be incorporated into the Rate Support Grant settlement, ~~were were~~ was designed to act primarily as a deterrent ~~and so~~ relatively few local authorities would in practice reach the point of having to submit their proposals to referendum.

(b) Rather than ~~incur the difficulties of~~ providing for the Secretary of State to approve the budget of a local authority, which, in the previous year, had been permitted temporary borrowing following a referendum, it might be better to provide in the legislation for ~~an automatic~~ formula to limit the second year budget of any authority which lost a referendum in the first year. (The Secretary of State for Wales had made some detailed suggestions on these lines in his letter of 22 September to the Secretary of State for the Environment.) If the limit were imposed automatically

in this way, the Secretary of State could avoid the problem of having to make a detailed scrutiny of individual local authority budgets prior to exercising his discretion on the total to be approved. The possible disadvantage ~~of this course~~ was that an automatic formula would not be suitable for dealing with the exceptional circumstances which could arise in any of the 413 local authorities in England.

(c) Care should be taken to ensure, so far as possible, that the procedures under which the majority party and the opposition gave ~~no~~ their views on the issue subject to referendum ~~was~~ were not such as to invite ~~wrangles and delays~~ protracted argument during the passage of the Bill and subsequently. In spite of the potential difficulties, it was nevertheless right that where a local authority circulated their views, possibly in the same envelope as the literature on the referendum, there should be provision for the opposition views to be similarly printed and circulated.

(d) Further consideration should be given to whether councillors might be liable to surcharge during the year a referendum took place. This might be possible if they were required to authorise the commitment of expenditure only to the extent that they could be confident of financing it; ~~that is,~~ it was argued that they would not be able to authorise expenditure, without risking surcharge, in the hope that it ~~they~~ could be financed from the proceeds of ~~the~~ a second supplementary rate approved in a referendum.

THE PRIME MINISTER, summing up the discussion, said that the Committee confirmed their decision that the second supplementary rate should be

subject to referendum rather than to re-election of the council. They agreed that the question should be specified in legislation and that it should be made clear that it referred to the second supplementary rate. A local authority distributing leaflets setting out its case for the increased expenditure and rates should be required to provide for the similar distribution of opposition views, ~~the Secretary of State for the Environment and the Paymaster General should consider the details of this further.~~ If the referendum were not approved, the Committee agreed that the Secretary of State should have powers to grant temporary borrowing approval, where necessary, sufficient to meet the local authority's committed expenditure. There would be formidable problems in ensuring the passage of the Bill through both Houses of Parliament in time for the measures to be effective in 1982-83, and the Secretary of State for the Environment should, ~~therefore,~~ ensure that the Bill was introduced on the first day possible in the new Session of Parliament.

THE COMMITTEE -

1. Invited the Secretary of State for the Environment:

(i) to announce, as soon as possible, ~~their decision~~ the Government's intention to introduce a Bill to provide for interim rating measures, including a provision for referenda on any proposals for second supplementary rates, to take effect in England and Wales in the financial year 1982-83.

(ii) To decide, in consultation with the Paymaster General, the precise method of giving effect to the decision that local authorities publishing their reasons for proposing the rate increase should also provide for the distribution of a statement of the opposing views.

(iii) To consider further, with the Secretary of State for Wales, and with the Chief Secretary, Treasury, whether it would be better to control the following year's budget of an authority which had lost a referendum by the method proposed in E(81)93 or by that proposed by the Secretary of State for Wales in his letter of 22 September.

(iv) To consider further, with the Chief Secretary, Treasury, and the Attorney General, the possibilities for making councillors subject to surcharge for excessive expenditure incurred in the financial year in which a referendum took place.

(v) To consider urgently, with ~~the Lord Chancellor,~~ the Attorney General and with the business managers, the advice on the timing of the Bill given to him by the Attorney General in his letter of 21 September and by the Lord Chancellor in his letter of 22 September.

(vi) To take account, in formulating his detailed proposals, of the other points made by the Prime Minister in her summing up of their discussion.

2. Approved the proposals made by the Secretary of State for Scotland in E(81)90.

230f
5pm

CONFIDENTIAL

1. Mr Gregson
2. Sir Robert Armstrong

Mr Ibbs has a copy of this. He will need to consider urgently whether it's possible both to recruit an expert and to complete the exercise by 2 October. The answer is probably No but the Treasury will be upset if there are delays: they want to take the NI figures on board for their public expenditure paper for 20 October.

DJLM 24/9/81

E MINUTES - 23/9/81

ITEM 2

NATIONALISED INDUSTRIES: 1981 INVESTMENT AND FINANCING REVIEW.

Previous Reference: E(81)26th Meeting, Item 1.

THE COMMITTEE considered a memorandum by the Chief Secretary, Treasury, (E(81)92) on the 1981 Investment and Financing Review of the Nationalised Industries.

THE CHIEF SECRETARY, TREASURY, said that the Committee had agreed at their meeting on 31 July that the nationalised industries should be asked to find savings sufficient to eliminate the total provision for their External Financing shown in the 1981 Public Expenditure White Paper, Cmnd 8175, adjusted by the addition of £750 million from the Contingency Reserve in each of the three years starting in 1982-83. The response of the industries had varied considerably, but the total of their net savings so far agreed was severely disappointing: there remained total excesses of £1,309 million in 1982-83 rising to £1,971 million in 1984-85. It was unsatisfactory that, of those savings agreed, less than half represented reductions in working capital and in current costs. Annex B to his memorandum showed that the industries were still assuming a general level of pay settlements considerably in excess of the 4 per cent pay factor which had been announced for cash limits in the public services, and, in a number of cases, settlements in double figures. ~~Sponsor Ministers had already been asked to approach chairmen on the question of their pay assumptions.~~ He recommended that sponsor Ministers should now hold further urgent discussions with their industries with a view to securing the additional savings necessary, in

assumptions in several industries, for example British Shipbuilders, appeared to take little account of the realities of their competitive position

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would have particularly harmful consequences for the private sector.

particular reductions in the ~~current~~ assumptions ~~adopted~~ for ~~on~~ pay, and to report the outcome to him by 2 October. In doing so they should remind the industries that without detailed plans for reducing their bids as indicated the Government would, as the Committee had agreed at their last discussion, hold back investment approvals beyond the levels approved last year. While the Government did not want to cut back on investment, the onus was on the nationalised industries to find other savings to prevent this from happening.

THE SECRETARY OF STATE FOR ENERGY said that, as their oil producing business was to be privatised in 1982-83, the External Financing of the British National Oil Corporation should no longer be shown in Public Expenditure White Papers. The figures for the National Coal Board were ~~was~~ still uncertain but good progress was being made in agreeing savings in the two later years. He expected that both the British Gas Corporation (BGC) and the Electricity Supply Industry ~~(ESI)~~ would agree to a lower figure for the assumption on pay settlements. BGC should find ~~the~~ savings to bring them close to their target for 1982-83, but they could ~~only~~ close the gap in the two later years ~~if~~ only if legislation were enacted in time to enable him to direct them ~~Corporation~~ to sell their oil assets. He expected to secure substantial further economies in the electricity industry, and he would look ~~further~~ again at the possibilities for disposals. It would not be practicable, however, to eliminate the excess for this industry. Their investment was largely in their nuclear programme which should not be cut.

THE SECRETARY OF STATE FOR INDUSTRY said that he acknowledged that the position of British Telecoms was unsatisfactory. The pay assumption of 11 per cent was unacceptable, and this had already been made clear to the Chairman, Sir George Jefferson. A cut in the telecommunications investment programme would have particularly harmful consequences for the private sector.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that sponsor Ministers should hold urgent discussions with their industries with a view to securing the additional savings shown in E(81)92~~, in particular reduction in the current assumptions adopted on pay,~~ and to report the outcome to the Chief Secretary by 2 October. The Chief Secretary could then take account of the outcome in making his proposals for the public expenditure exercise as a whole which the Cabinet would start to discuss on 20 October. The Committee had noted the position in the industries for which the Secretary of State for Energy was responsible and that other sponsor Ministers were pressing their industries for further savings; it could be assumed that the Chairman of British Airways would do all that was possible to secure the maximum savings in his industry. It was particularly important that sponsor Ministers should continue to urge the chairmen to adopt lower assumptions for pay settlements. It ~~would~~ might be helpful if ~~Ministers could~~ it were possible to arrange for Ministers to be supported in their further discussions with the chairmen by an advisor, with suitable industrial and financial expertise, who could attend all the meetings with the main industries. The Head of the Central Policy Review Staff (CPRS) should consider urgently whether a suitable candidate could be found and whether he could make an effective contribution within the time available. The present exercise to find savings illustrated a number of general problems in the relationship between the Government and the nationalised industries; Ministers would consider these again in their further discussions of the CPRS report on the nationalised industries and of the report which ~~they~~ the CPRS were now preparing on ~~monetary~~ monitoring arrangements.

The Head of the CPRS should also report on the progress being made in the use of the outside consultants Maynard and Barry.

THE COMMITTEE -

1. Invited the Head of the Central Policy Review Staff:

(i) to advise urgently on the possibilities for appointing an assessor to assist sponsoring Ministers in their further discussions with their industries and on the practicability of his making an effective contribution within the time-scale envisaged.

(ii) To report on progress in the use being made, in investigations of nationalised industries' efficiency, of the consultants Maynard and Barry.

2. Agreed that, subject to the outcome of 1(i) above sponsor Ministers should hold urgent discussions with their industries with a view to securing the additional savings shown in E(81)92, in particular by reductions in the assumptions for pay, and to report the outcome to the Chief Secretary, Treasury, by 2 October.

2.30 pm

RWA

E(81)29th Minutes: 23.9.81

3. HEAVIER LORRIES: THE ARMITAGE REPORT

THE COMMITTEE discussed a Memorandum by the Secretary of State for Transport (E(81)91) on proposals to increase maximum lorry weights, together with a package of environmental measures, in response to the Armitage Report on Lorries, People, and the Environment.

THE SECRETARY OF STATE FOR TRANSPORT said that the Government had already announced, in reply to a Supply Day Debate on 17 June, that it did not accept Armitage's recommendation that the maximum lorry weight on 6 axles should be increased to 44 tonnes. He now proposed that maximum lorry weights should be increased up to 40 tonnes on 5 axles, but that the weight limit for 4 axle lorries should remain at 32.5 tonnes and should not be increased to 34 tonnes as Armitage had recommended, because of the increased road damage this would cause. It was recognised that even these proposals would meet opposition in many quarters, including some of the Government's own supporters. It had therefore been agreed in earlier discussions in the Ministerial Sub-Committee on Economic Affairs in July that any announcement about increased lorry weights should form part of a package of measures designed to reduce the impact of lorries on the environment. He had listed a number of these measures in his memorandum, notably the construction of more by-passes, reductions in lorry noise by the end of the decade and a new research and development programme to develop quieter and cleaner lorries. In addition the Government should stress the economic case for using lorries more productively, which was one of the few measures which the Government could take to help industry significantly without incurring any further public expenditure.

The following were the main points made in discussion -

a. The economic benefits of raising the limits for 4 axle vehicles from 32.5 to 34 tonnes were considerable for the United Kingdom's transport and shipping industries, since this would enable containers to be packed more fully. Although the addition of this proposal would increase opposition and there would be more road damage, the Armitage Report had, in an objective and independent assessment, reached the conclusion that the balance of costs and benefits was in favour of making the increase.

b. The implications of the proposed maximum weights for UK lorry manufacturers needed to be considered carefully; however it seemed likely that the effects of the proposed increases for both 4 axle and 5 axle vehicles would be neutral in that respect.

c. The environmental package was in general on the right lines but the presentation would need to be improved. There appeared to be little point in increasing the maximum rate of grant under Section 8 of the 1974 Railways Act from 50 per cent to 60 per cent when no additional resources were available for the scheme. The most important proposals were those relating to new by-passes. It would be helpful if this section could be strengthened by looking even further ahead and listing a few more by-passes which might be built eventually. The proposal for double glazing in "lorry action areas" was worth serious consideration but there was the risk that the costs of such a scheme would be excessive.

d. There was already concern about the ability of some of the major estuarial bridges, notably the Severn Bridge, to withstand present day heavy traffic. It would be unfortunate if the increase

in maximum lorry weights was seen as aggravating these problems. It was however clear that extensive work on the strengthening of the Severn Bridge would be necessary whether or not maximum lorry weights were increased.

e. The timing of an announcement needed to be looked at in relation to the development of proposals by the European Commission. It was undesirable that increases in lorry weights should be seen as a measure imposed on the United Kingdom by membership of the European Community. The balance of advantage appeared to favour the publication of the United Kingdom's own firm proposals in advance of agreed EC measures.

f. A strong reaction could be expected from some of the Government's supporters in the House of Commons, particularly if the proposal for increasing the weight limit for 4 axle vehicles to 34 tonnes was included, but this could be mitigated if care was taken, in advance of publication of the proposals, to explain their rationale to appropriate backbenchers. Although heavier lorries would mean fewer jobs for lorry drivers, there were considerable net benefits for industry and employment; it was to be hoped that some sectors which would benefit particularly, for example the food manufacturing industry, would campaign vigorously in support of the proposals.

THE PRIME MINISTER, summing up the discussion, said that the balance of argument was in favour of not only increasing the maximum weight for 5 axle lorries to 40 tonnes, but also increasing the maximum weight for 4 axle lorries to 34 tonnes. Depending on the reception of the proposals, the Government might wish to reconsider whether a concession should be made on this latter point but only after those who would benefit economically from the proposal had had an opportunity to argue

the case for it. The package of environmental measures should be revised by making the presentation in general as positive as possible, by deleting the proposed increase in the rate of grant under Section 8 of the 1974 Railways Act and by listing a few more by-passes; this might be done by drawing attention to some by-passes built recently, by listing proposed by-passes which might be built within a longer time scale, ~~or~~ and, if this proved possible, by adding some additional projects which could be undertaken in areas of high unemployment by re-ordering priorities within existing public expenditure ceilings. The aim should be to publish the proposals in a White Paper, together with draft amending regulations, in November so as to give time for adequate briefing of Government backbenchers but to forestall the promulgation of agreed EC measures.

THE COMMITTEE -

1. Agreed that the Government should announce its intention to increase maximum lorry weights to 34 tonnes for 4 axle vehicles and to 40 tonnes for 5 axle vehicles, and that the announcement should be accompanied by a package of environmental measures as revised in the light of the Prime Minister's summing up.

2. Invited the Secretary of State for Transport -

i. To arrange, in consultation with other Ministers concerned, for the publication of a White Paper setting out the Government's proposals, together with draft amending regulations, in November.

ii. To consider, in consultation with the Chief Whip, how the thinking behind the Government's proposals might best be explained to the Government's supporters in the House of Commons before publication of the White Paper.

C.O.
25 September 1981

Dear Minister

Robin Ibbs has concluded - for good reasons, I think - that using Arnold Weinstock won't be any good. As a fall-back, he suggests that CPRS should help brief sponsor Ministers for their meetings with chairmen (para 7). I think that's the best we can do until Depts are strengthened. Agree?

CONFIDENTIAL

cc Mr Duguid
Mr Wilson

Qa 05688

To: Mr Lankester

From: J R Ibbs

Yes and if Robin can do the job himself it will be wonderful

24 September 1981

Nationalised Industries: 1981 Investment and Financing Review

1. At E Committee yesterday I was asked to consider urgently the possibility of finding an adviser, with suitable industrial and financial experience, who could attend the most important meetings which Ministers are to have in the next week with Chairmen of industries.

2. I have considered what such an adviser might be able to contribute in the time available, and also who might be suitable to act in this role; in particular I have discussed the problem with Lord Weinstock. My conclusions are as follows.

3. The time constraint of having to complete the round of meetings within one week seems to rule out the possibility of enabling an adviser to be brought in to review the situation in each industry at all systematically. To be effective most potential advisers would need a chance to obtain a 'feel' for the industry and a single meeting is unlikely to be sufficient to reveal substantial scope for improving the EFL figures.

4. Lord Weinstock if asked to help believes that he (accompanied by Sir Kenneth Bond) might be able to make some immediate impact though, on commenting on what might be achieved, he was careful to put it no higher than 'it could do no harm'. His proposition would be that he should question the Chairman of the industry as he would a subsidiary of GEC, with the Secretary of State being present as 'umpire'. Lord Weinstock would not want to be briefed or to see any figures in advance. He stressed that he would want the occasion to be described to the Chairman as an experiment and to be kept strictly confidential. I have serious doubts whether a meeting could be set up in this way even as an experiment without the Chairman regarding it as an insult; and I believe there would be a serious risk of damaging leaks. Alternatively, Lord Weinstock would be willing, I think, to be present merely as an adviser asking an occasional question but

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he has no conviction that he (or anybody else) would be able to reveal anything worthwhile in this role. (In either case a subsidiary problem is that some industries with the largest EFL 'gaps' pose severe conflict of interest difficulties with GEC.)

5. I conclude that although a more practical businesslike approach by Government to the nationalised industries is the only satisfactory fundamental way of improving the relationship and performance, to try and introduce an external adviser from business for the meetings in the coming week is unlikely to achieve anything worthwhile and might actually damage the relationship between the newly appointed Secretaries of State and their Chairmen.

6. As I said yesterday, the task is to convince each Chairman of the necessity, as in the private sector, for efficiency and cash economy; i.e. the calculation of EFLs for 1982/83 has just got to be done against more stringent standards. If Chairmen can be convinced of this they will go away and produce better figures; if they are not convinced they are likely, at least at a single meeting, to be able to defend much of the detail against attack. However, it should be possible to back up a strong argument on the need for greater efficiency and economy with a systematic demonstration of the main points at which savings have to be found - e.g. investment, disposals, working capital, pay, other costs, etc. In particular, the points made yesterday on pay can be driven home and I believe emphasis could be put in some instances on the likely scope for improvement on working capital particularly stocks.

7. Although I do not believe that direct involvement of external advisers in the forthcoming meetings is likely to be a good way of making progress, the problem is far too serious merely to be left at that point. I suggest that I with other colleagues in the CPRS with business experience might be used, for the largest industries, alongside the resources in the Treasury to contribute to briefing sponsor Ministers for their meetings with Chairmen and in any bilaterals which the Chief Secretary has with sponsor Ministers. Although I cannot guarantee that our involvement

X

will produce substantial savings, if the Prime Minister thought this was worth pursuing further I should be happy to do so.

8. Finally, I believe that the lack of conviction by sponsor Ministers yesterday in the figures that had been sent in by their Departments is further evidence of the need for changes of the kind envisaged by the CPRS in their proposals on 'Business Groups'. Even though external advisers do not appear to be a way of solving the immediate problem, they may have an important contribution to make in the longer term as part of the process of bringing a more businesslike approach on nationalised industries into Government.

This will be considered further in the light of Depts' responses.

TL

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

JR

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

From: J. R. Ibbs

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Qa 05686

24 September 1981

Dear Chief Secretary,

CPRS Report on the Relationship Between Government and the Nationalised Industries

It now seems clear that Ministers will be unable to resume discussion of our report before the end of October. I am a little concerned that this unavoidable delay could affect the climate in which the report and its recommendations are subsequently discussed with the industries' chairmen. I am aware that Sir Robert Marshall wrote to the Chancellor in August, on behalf of the NICG, to express concern that he and his colleagues had read about the report in the press, and to ask when the chairmen could expect to be consulted. The Treasury and CPRS agreed that it would be inappropriate to take the matter further with the chairmen before Ministers had met again to take decisions on those recommendations still to be considered, how discussion of the report with chairmen should be handled and the related question of publication of a suitably tailored version. The Chancellor sent Sir Robert Marshall a holding reply, and that is where matters stand.

I understand that Sir Derek Ezra and Sir Denis Rooke have also asked t he Department of Energy when they can expect to see the report. No doubt other chairmen will make similar enquiries, and I doubt whether we can simply stand on the Chancellor's letter for a further four or five weeks without unnecessarily souring relations with the chairmen and risking a hostile reception to the report when it is eventually shown to them.

I suggest that, in the Chancellor's absence, you might have a word with Sir Robert Marshall and explain to him that the holidays, Ministerial changes and the current round of international meetings have all unavoidably

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
H M Treasury
S W 1

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delayed full Ministerial consideration of our report; but that it remains Ministers' intention to consult the chairmen on implementation as soon as Ministers have taken a view in principle on the report's main recommendations. (Some important decisions were of course taken at the Prime Minister's meeting on 4 August, but the question of changes within sponsor departments has still to be resolved, as do a number of other issues). It will be important to resist any suggestion that the chairmen should see the report, even in amended form, before Ministers have had a chance to decide on the outstanding points, including publication. But I believe that a word from you to Sir Robert Marshall should help to keep the chairmen in play until it is possible to talk to them.

Looking further ahead, and assuming that Ministers reach decisions on the report as a whole at their next meeting, an appropriate move might then be to arrange a meeting of the chairmen and Ministers concerned, under the Chancellor's chairmanship, to discuss the report in general before sponsor departments' discussions with individual chairmen. This could take place a few days after they have received it, and coincide roughly with the timing of general publication if that is what Ministers decide upon. We can develop this suggestion nearer the time, and will also circulate for Ministerial consideration a suitably amended version of the report.

I am sending a copy of this letter to the Private Secretaries to the Prime Minister, Chancellor of the Exchequer, Secretaries of State for Industry, Energy, Trade, Transport, Environment and Scotland, and to Sir Robert Armstrong.

Yours sincerely,

J R Ibbs

Not hd

Ref. A05618

PRIME MINISTER

Nationalised Industries: Investment and Financing Review

(E(81) 92)

BACKGROUND

The Committee agreed on 31st July (E(81) 26th Meeting, Item 1) that an additional £750 million should be provided for the nationalised industries' external finance in each of the three years beginning in 1982-83 and that the sponsoring Ministers should look for savings of £1,750 million in 1982-83 and of more in the two later years. It was agreed that the industries should be told that the Government would hold back investment approval in 1982-83, beyond the 85 per cent provisional authorisation for each industry, until they had produced detailed plans for delivering the required savings.

2. In E(81) 92 the Chief Secretary, Treasury, reports on progress. The figures are summarised in the table at the top of page 2 of his paper: they show a remaining excess of £1,300 million in 1982-83 rising to nearly £2,000 million in 1984-85; in reality the position is probably worse, since the figures are based on those in the Public Expenditure White Paper for the National Coal Board and not on the NCB's bids which have yet to be examined in detail. The Chief Secretary points out that it is disappointing that, of those cuts agreed, less than half represent reductions in working capital and in current costs. The figures for a number of the industries are still based on assumptions of pay settlements in double figures - see Annex B of the paper.

3. It was agreed, at your meeting on 7th September to discuss nationalised industry pay, that the question of pay settlements should be tackled industry by industry and that each sponsoring Minister should find an opportunity to see his Chairmen to impress on them the importance which the Government attached to their achieving lower settlements.

Pay

4. The Chief Secretary now asks that sponsor Ministers should hold further urgent discussions with their industries with a view to securing the necessary savings, and in particular reducing the current assumptions for pay, and to

further urgent discussions

report the outcome to him by 2nd October. It is important that this timetable should be met so that the Chief Secretary can take account of the outcome in formulating his recommendations for the public expenditure aggregates, and for cuts which may be necessary, which Cabinet will start to discuss on 20th October.

HANDLING

5. After the Chief Secretary has introduced his paper you will wish to hear the views of the sponsoring Ministers and, in particular, those of the Secretaries of State for Industry and for Energy who between them are responsible for the big spenders (notably Electricity, Gas, Posts and Telecommunications) where the savings will have to be found if there is to be any chance of reducing the present excess. The Committee may wish to look in particular at the present assumptions for pay settlements in Annex B of E(81) 92. It should not, however, be necessary to enter into detailed discussion of particular industries. The present figures are still tentative and the object of the meeting is to ensure that the momentum of the search for savings is maintained and that the Chief Secretary knows the outcome in good time.

Monopoly

CONCLUSIONS

6. You will wish to sum up with reference to paragraph 10 of the Chief Secretary's paper and to invite sponsor Ministers to hold further discussions with their industries and to report the outcome to the Chief Secretary by 2nd October.

RTA

ROBERT ARMSTRONG

22nd September, 1981

Prime Minister

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Qa 05682

To: MR LANKESTER

From: J R IBBS

22 September 1981

Nationalised Industries' Investment and Financing Review

1. The Chief Secretary's paper for E tomorrow (E(81)92) reveals the persistence of a huge gap, which will be hard to close, between nationalised industries' bids for external finance in 1982/83 and beyond and the amounts which E agreed to make available on 31 July. This worrying situation underlines two major concerns of the CPRS: (i) the need for sponsor Departments to have a closer understanding of their industries so that they can identify and press for potential savings - this need was one of the reasons for our proposal on "Business Groups" in our Nationalised Industry Report; the Prime Minister has asked sponsor Ministers to provide alternative proposals that would achieve the same objective; (ii) the poor performance of the public trading sector on pay (and staff numbers) compared to the private sector and even public services - our report on Pay emphasised how weakness on pay could undermine attainment of overall economic objectives.

Ministers have now sent in their proposals, and they are being analysed by CPRS for consideration by the new Committee on nat. industries

2. Departments must persuade their industries of the necessity for finding savings. The attitude in nationalised industries that are incapable of generating their cash requirements is vastly different from that in the private sector when a similar problem arises. Investment, though already cut back, should still in some instances yield extra savings; so might disposals, better property management, energy savings and other aspects of "good housekeeping". I am especially concerned that more might be done to reduce working capital, including stocks (on which I understand preliminary Treasury calculations actually suggest an increase) and debtors.

3. It is the industries' pay and staffing assumptions, however, that most need to be challenged, both for their size and because the scope for major action in other areas may be limited. Nationalised industries' tariff increases, for example, are already damaging the private sector; and sizeable cutbacks in investment where this is for much needed modernisation would be undesirable.

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4. Annex B to the Chief Secretary's paper shows in column 2 a scatter of industries' settlement assumptions which in no way reflects the differences in their bargaining strengths. British Shipbuilders and the Post Office, for example, should be pressed to revise their assumptions downwards. British Telecom's assumptions are at the high end of the range and should likewise be challenged. Even the NCB's assumption looks high in relation to indications that have been given of the level of settlement that is believed possible. And the table shows no signs of the important distinction between coal, those industries which it may be difficult to prevent from following coal, and those where it may be quite realistic, and necessary, to take a firm stand.

5. In a few instances it may have to be accepted that the reduction being sought is not attainable in full. For example, the electricity industry's shortfall of £434 million in the contribution which is sought from them looks unrealistic and could hardly be achieved without cutting the nuclear programme.

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

JR

22 September 1981

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POLICY UNIT

PRIME MINISTER

c.c. Mr. Hoskyns
Mr. Duguid

E: 23 September: Nationalised Industries

The Chief Secretary's paper E(81)92 concludes that sponsor Ministers should urgently seek additional savings in EFLs, in particular through a reduction in the current assumptions on pay. This is of course chiefly a matter for the sponsor Ministers; but we have four comments on the pay aspect:-

(i) The figures in Annex B are a bit misleading. The NCB is assuming 7-8% for the settlement this November, and 10% next November. Mr. Brittan has already asked Mr. Lawson to challenge the 10%; and the 10% assumption for the electricity industry ought also to be brought down to 7%. These changes "save" about £30m each in 1982/83.

(ii) At your meeting on 7 September, it was agreed that sponsor Ministers would see each of the Chairmen with a view to lowering the pay assumptions. It would be useful to take this opportunity of the E discussion to ask what progress has been made.

(iii) Nonetheless, it would be fatal to create artificial savings, which would not in the event be realised, by lowering the pay assumptions where there is no prospect of the assumptions being correct. That would simply lead to a series of subsequent breaches of the EFLs.

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/ (iv)

(iv) Therefore, it is important to examine the prospects for pay, industry by industry. For instance, it is very unlikely that lower settlements than currently assumed by the Treasury can be achieved in the public utilities; but substantial savings would be achieved by lower settlements in the weaker, non-monopoly nationalised industries such as the Post Office, British Telecoms and British Shipbuilders, and smaller savings would be achieved by lower assumptions in the smaller nationalised industries. There must also be a big question about the justification for the present assumption (8.3%) for the settlement in BR.

Since dictating (iv) above, I have seen David Howell's letter of 22 September about the considerably worsened prospects for BR. He concludes that it would be "wishful thinking" to challenge BR's pay assumption (8.3%). He really ought to be pressed on this: BR's financial position, as outlined in his letter, constitutes a strong case for a very low settlement indeed next year, if not a standstill. That might carry the risk of a strike. But there are 11 months in which to prepare for it - i.e. to let BR employees adjust to the reality of working in a loss-making industry, and to get proper contingency planning done.

22 September, 1981.

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cc J Vereker
A. Duguid
A. Walters

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

2

The Rt Hon Leon Brittan QC, MP
Chief Secretary to the Treasury
Treasury
Parliament Street
LONDON SW1

[E folder].

22 September 1981

Dear Leon

NATIONALISED INDUSTRIES INVESTMENT AND FINANCING REVIEW

I am now able to write to you about British Rail's finances for 1982/83. My officials have been in touch with yours about the three smaller transport industries. I have now seen your paper E(81)92 which is to be discussed tomorrow.

BRB's forecasts of their external financing requirement for next year have however worsened in the light of later information, since these were last considered by E, and now stand at £1113m. This further deterioration, to which you refer in E(81)92, erodes the economies which the Board identified when the extent of their trading problems became evident earlier in the year. I have now discussed with Sir Peter Parker very fully the major problems this new prospect presents to him and to us. I left him in no doubt that I look to him to do his utmost, faced with the harsh realities of their position in the market.

At my insistence, the Board have first taken a fresh and stringent look at their forecasts of their operating expenses and of their planned realisations. The Board's forecasts already incorporate economies in current costs approaching £100m. It would in my judgement be right in the circumstances to press them to work to an EFL requiring a further £40m operating economies next year and to go for a further £40m of realisations

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on top of the £25m already in their budget. This would require both a doubling of land sales and entire divestment of the hotels. I am proposing to examine whether realisations could be even more accelerated. I shall be having detailed discussions on this in the next two weeks. But I am bound to say that the prospects for imposing on the Board tougher objectives which would in fact be attainable seem remote.

On the pricing front, the Board face a very difficult market situation, made even more uncertain by the fact that their fares increase last November turned out in the event to be equivalent to a real increase of more than 5%. In these circumstances the Board have decided that the best course this year is to go for a general fares increase at the end of November which (on present forecasts) would be slightly under the rate of inflation. I am sure we cannot press them to go for a higher level. The only practical effect of this would be to load the burden more heavily onto the commuter, which is the only sector of the market which is not fully competitive.

To make a contribution to the remaining gap I have turned to investment, highly undesirable though it is to make reductions here. The Board are already proposing to hold investment next year down to the 85% level already authorised. I judge that it would be just tolerable to make a further reduction of £15m.

The economies I have set out above amount to £95m. on the Board's current forecast of an external financing requirement of £1113m. I believe that I could persuade Sir Peter Parker and his Board to accept the resulting EFL of £1018m. as realistic in the circumstances, provided that they were not expected to carry forward into 1982/83 any of the overshoot currently forecast for 1981-82. Am even tougher EFL would in my judgement not be regarded as realistic, and would lose the Board's full backing, which is essential. They would inevitably turn to closures of rural services and further fares increases, which would give us the most acute political difficulties without any major improvement in finances in the first year.

These figures assume that the Board's present assumptions on pay remain unchanged. They will lead to a gross pay-bill increase in the year of 7.75% of which 2.7% represents the flow-through effects of the settlement we accepted for this year, and of the 39-hour week agreed last year. The increase from changes in the year would then be about 5% (the actual changes in wage rates will of course be higher). Each reduction of 1% would save about £16m on the Board's costs, and I have therefore reviewed very fully with Sir Peter Parker his assessment of the pay situation next year to see if there is any saving to be made. The prospect is very difficult for him to foresee, since what he can achieve is much influenced by the course of other settlements earlier in the round. He will certainly go very hard for as low a settlement as possible. He has emphasised to me that the Board make very clear to the unions the constraints of the EFL and of the market situation. We could of course press them to assume a more modest increase, but I believe it would be simply wishful thinking to depart from their assumptions at this stage.

The prospects for the later years are very uncertain, and in my view we cannot at this stage put in any more than illustrative figures for 1983-84 and 1984-85. I propose that for these years we should simply increase the 1982-83 figure by the provisional inflation factors. This would after suitable rounding give £1080m in 1983-84 and £1150m in 1984-85 - reductions of £78m and £79m respectively on the latest forecasts set out in your paper. These figures would require sustained improvement in the performance of the railway, because it will not be practicable in future years either to continue to restrict investment in the renewal of the system to current levels or to rely on realisations as a source of finance.

I am much concerned, as I know you are, at the unfavourable trend in the Board's finances, and their inability, even with great effort, to adapt quickly enough to changes in the market. The Board for their part are concerned about the rate of renewal of the equipment and the finance for that, in relation to the policy objectives set them, and had just asked Norman Fowler for a joint review. I am considering how best to set this up so that it can give me and the Board the full analysis which we need for sound prescriptions. I will let you know my proposals shortly.

I have of course considered whether there is any scope for finding greater savings from my other three industries to compensate for the shortfall on British Rail, but I have had to conclude that this is not a possibility. The savings I have offered for the other three industries in 1982/83 fall short by less than £3m of the total savings sought. The trading prospects for both BTDB and NBC have worsened substantially since they made their IFR submissions and the Board's management will be fully stretched to achieve the cuts I have proposed.

Copies of this letter go to the Prime Minister, the other members of E Committee, and to Sir Robert Armstrong.

Yours ever

David

DAVID HOWELL

PART 4 ends:-

s/s Transport to PM 18.9.87

PART 5 begins:-

E(87) 92 - 21/9


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