

PREM 19 / 1585



PART 9

MT

CONFIDENTIAL FILING

Policy Towards The Nationalised Industries.

Financial Control.

NATIONALISED INDUSTRIES

PART 1: MAY 1979

PART 9: JUNE 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>1.6.84</del>		<del>17.10.84</del>					
<del>2.6.84</del>		<del>24.10.84</del>					
<del>6.6.84</del>		<del>2.11.84</del>					
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PART 9 ends:-

PS/CST to AT. 28.2.85

PART 10 begins:-

SS/Emp to CST. 6.3.85.







## Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Nationalised Industries Bill.

Nationalised Industries – Draft of a Bill. XVI-A(1). 20<sup>th</sup>  
September 1984

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Signed

S. Gray

Date

17/3/2014

**PREM Records Team**





Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Turnbull Esq  
Private Secretary  
10 Downing Street  
London  
SW1

28 February 1985

*Dear Andrew*

**NATIONALISED INDUSTRIES BILL: OBSERVATIONS OF THE  
NATIONALISED INDUSTRIES' CHAIRMAN'S GROUP (NICG)**

The Chief Secretary met representatives of the NICG yesterday afternoon to discuss their reactions to the measures that it proposed to incorporate in the Nationalised Industries Bill which QL Committee has recommended should have a place in 1986-87 legislative programmes. The Chief Secretary will be reporting on the discussion to Cabinet this morning. In the meantime, although he has not yet had an opportunity to study it in detail, he has asked me to circulate the enclosed paper which the NICG left with him at yesterday's meeting.

I am copying this letter to the Private Secretaries of members of Cabinet to Murdo Maclean (Chief Whip's Office) and to Sir Robert Armstrong.

*Yours sincerely*  
*R Broadbent*

R J BROADBENT  
Private Secretary



## PROPOSED NATIONALISED INDUSTRY LEGISLATION

### OBSERVATIONS OF THE NATIONALISED INDUSTRIES' CHAIRMEN'S GROUP

1. This memorandum sets out the observations of the Nationalised Industries' Chairmen's Group on the proposals for nationalised industry legislation appended to the Chief Secretary's letter of 20th December, 1984. It focusses primarily on those broad issues which have shaped our general reactions, but some comments on the detailed proposals set out in the Consultation Note are appended. This memorandum is intended to be read in conjunction with the observations on the proposals which individual Chairmen have made to their sponsor Secretaries of State.

#### LARGELY UNCHANGED NATURE OF THE PROPOSALS.

2. In our judgement, the proposals advanced last December do not differ significantly from the original proposals advanced last August. Welcome improvements have been made with regard to some presentational aspects; and there have been advances on some procedural issues: but as far as matters of substance are concerned, the revised proposals remain close to the earlier version.
3. We very much regret that the Government has chosen to continue to proceed on this largely-unchanged basis second time round, and in so doing, has ignored the considered offer indicated in paragraph 2 of our memorandum of 21st September, 1984. We there signalled that, provided the proposals put forward were not treated as the sole basis for consultations, Chairmen would be very ready to make a "positive contribution to the common pool of ideas on ways of improving the framework of statutory and non-statutory arrangements within which the Corporations operate".

#### CONFLICT WITH POLICY OBJECTIVES.

4. We find it impossible to reconcile the detailed proposals now before us with what we understand to be the broad thrust of the Government's policy towards the Corporations. That policy, as we see it, is to foster the development of efficient, commercially oriented and increasingly profitable businesses which, in-so-far as they remain in the public sector, will make minimum calls on public funds. The present proposals would frustrate, rather than serve, that objective. Their main effect would be to strengthen substantially Whitehall's detailed control over the direction of the Corporations' affairs, and so downgrade the authority of the Boards; and that could do nothing but inhibit the growth of thrusting businesses, responsive to the dynamics of the market place.
5. Much the same conflict between policy objectives and the actual proposals also arises in more specific terms. The Chief Secretary has told us that the measures being advanced are intended to serve two main aims:
  - to tidy up the existing Statutes, and to bring the older ones into line with present practice;
  - to produce something akin to "a Companies Act for the nationalised industries" - a phrase which we interpret, by analogy with private sector practice, to imply the definition of a minimum framework of essential regulatory measures.



The Chairmen's Group can accept those two objectives, and would co-operate in their achievement. In practice, however, there is no doubt whatsoever that the present proposals go very much further than the Chief Secretary's stated aims require.

6. Indeed, this conflict between means and ends is so sharp that we have had to consider whether the proposals are really designed to create an altogether-new form of Government/NI relationship, akin to that prevailing between a holding company and its wholly-owned subsidiaries. For its part, the Chairmen's Group has never stood on the pure Morrisonian concept of an arms-length relationship between Ministers and their Boards; and it has accepted a succession of adjustments providing for a considerable degree of Ministerial involvement in shaping the strategic framework within which the Corporations operate: but hitherto, such adjustments have always been constrained by the clear wish on both sides to preserve the authority and independence of the Boards. If Government control were now to be extended to the extent implied by the holding company/subsidiaries concept, that essential feature would no longer hold. If so, the consequences would be far-reaching, not only for the Corporations, but also for the Government, in part because Ministers would increasingly be drawn into dealing with detailed business issues which they have neither the time nor the Departmental support to handle, and in part because they would increasingly find themselves called on to account to Parliament for the consequences of their decisions. In view of our anxieties about any shift to a holding company/subsidiaries relationship, we hope that the Government will now re-confirm the assurance contained in the Chief Secretary's letter of 6th August that "it is not intended that the legislation would result in any significant change in the existing relationship between Government and the industries".

#### THE "UNIFORM BILL" CONCEPT

7. The present proposals envisage that a single set of legislative provisions, covering major aspects of the Corporations' affairs, should be applied uniformly to all the public sector Corporations, irrespective of the wide diversity of their individual circumstances. This approach, which completely ignores the long-established practice of tailoring nationalised industry Statutes to the particular needs of individual businesses, has given rise to particular concern.
8. Aggravating this general concern, is the fact that the "Uniform Bill" approach has been interpreted as requiring, under each and every heading, the grant to all Ministers of whatever is the strongest power now enjoyed by any one of them. However desirable each individual new power might be, this accumulation of powers would involve the most formidable enhancement of Ministerial authority vis-a-vis the Boards that any Government has ever proposed, however interventionist its general stance.
9. The anxiety which this engenders amongst the Corporations is not significantly reduced by assurances that the new powers would "generally be permissive, allowing the use made of them to be tailored to the specific circumstances of each industry". Experience suggests that even the least interventionist Minister tends to be gravely tempted to use powers once he has them.
10. Our opposition to this "Uniform Bill" approach is so strong that we are very reluctant to appear to qualify it in any way. However, if it were to be followed, two provisions in particular would be essential to



restrain the use of the very extensive powers with which it would endow Ministers:-

- (a) We welcome the fact that the revised proposals at least provide some measure of Parliamentary accountability, whereas the original proposals made no mention of Parliament at all. However, the degree of scrutiny envisaged is limited to reliance on the "negative Order" procedure. Given the importance of the business decisions which could be affected by the proposals, Ministers should normally be required to use the "affirmative Order" procedure.
- (b) The present proposals require Ministers only to consult with Boards before using their enlarged powers. In view of the extent of Ministerial intervention conceivable under the present proposals, this would be an entirely inadequate form of restraint. There should, instead, be a positive requirement on Ministers to obtain the agreement of the Boards before deploying their new powers. Those powers would then be usable in the way which the Chief Secretary originally envisaged, ie., as instruments which could give statutory backing to necessary "tidying-up" activities which could not be provided under existing legislation.

#### PRACTICAL CONSEQUENCES OF THE PROPOSALS.

11. In practical terms, we judge that the effects of the proposals on the competitiveness of the public sector businesses will be altogether deleterious, with the very much increased involvement of Whitehall in their decision-taking processes inevitably serving to crib and confine the entrepreneurial spirit which legislation should aim to foster. There is widespread anxiety about three aspects in particular. Firstly, able and well-led Boards are clearly crucial to business success in the public as in the private sector, yet legislation on the lines proposed would undoubtedly weaken their authority. Secondly, the powers with which it is proposed to endow Ministers in the financial field are so considerable that, if they were carried fully into effect, the Boards could not be asked to carry responsibility for the financial results of their businesses. Thirdly, the proposals would put at risk the active co-operation of employees and of their Unions in the efficient running of the businesses. Overall, therefore, there is deep concern about the likely effects of the proposals on the vitality and effectiveness of the businesses. More detailed comments on the seven main sections of the proposals are annexed.

#### OTHER CONSIDERATIONS.

12. Parliament. In our memorandum on 21st September, 1984, commenting on the original proposals, we drew attention to the fact that they made no mention whatsoever of any Parliamentary scrutiny of the extensive powers with which Ministers were to be endowed, and urged that this failing be remedied. In this memorandum, we have not only welcomed the limited provisions of this sort contained in the revised proposals, but have suggested that they should be appreciably strengthened. In parallel, as we informed Ministers during a dinner meeting on 19th January, 1984, we have devised proposals which could be used to associate the relevant Departmental Select Committees more closely with oversight of the Corporations' affairs, if and when that were judged appropriate. We can, therefore, reasonably claim to be sympathetically inclined to the wish of back-bench Members of Parliament for greater opportunities to make their views known regarding the affairs of the nationalised industries. We remain, however, adamantly opposed to any proposal to give the National Audit Office a direct role vis-a-vis the Corporations. Any possible gain that might arise in terms of an enhancement of the effectiveness of back-bench MPs would be heavily counter-balanced by the



seriously adverse effects on the effectiveness of the public sector businesses. We trust that Ministers will give an unqualified assurance that they will continue to resist any such proposal.

13. Consumers. The present proposals would give Ministers stronger powers to set financial targets, but would impose only very limited restraints on their ability to use these powers to pursue broad public finance objectives unrelated to the commercial situations of the businesses. If that imbalance is not corrected, consumer groups may be provoked into becoming still more active in arguing that the Government is seeking to use some of the Corporations as something akin to tax-gathering agencies. Similar problems are likely to be generated by the proposals to empower Ministers to require reserves to be converted into State-owned debt capital, since consumers may well regard themselves as having no less strong claim on the reserves.
14. Employees and Unions. The proposals seem to have been drawn up with little thought for their likely consequences in terms of the morale and motivation of the Corporations' employees, the attitudes of their Unions, and the exposure of Ministers to the charge of direct involvement in determining the Corporations' wage bargaining and industrial relations policies. In our judgement, the readiness of employees to co-operate in measures to expand production and increase efficiency, which have been so crucial in some Corporations over recent months, would be discouraged if Boards were perceived to be responding solely to the dictates of Ministers rather than the overall interests of the businesses.
15. International Obligations. Much fuller consideration is required of the problems which the proposals could present for those Corporations whose activities are subject to international, (including European Community), regulations.

#### CONCLUSIONS

16. The Chairmen's Group has considered what advice it should give to Ministers, in the light both of the general considerations outlined above, and of the many anxieties which individual Corporations have expressed to their sponsor Departments on particular proposals.
17. With regard to the issue immediately to hand, we advise strongly that Ministers should not authorise further work to prepare legislation based on the proposals set out in the Consultation Note. These proposals are fundamentally ill-conceived, and they would neither serve the best interests of the public sector businesses nor truly advance the policy objectives of the Government.
18. We fully recognise, however, that there are problems with existing nationalised industry Statutes which need to be addressed. Provided only that the consultations were not restricted solely to detailed consideration of the proposals already advanced, we would be very ready to co-operate in a positive way in devising practical measures designed to meet the objectives defined by the Chief Secretary.
19. If Ministers were nevertheless to decide to go ahead with the preparation of legislation based on the existing proposals, the Chairmen's Group would feel obliged to press: (a) for some considerable departure from the "Uniform Bill" approach, from which many of the perceived problems stem; and (b) for very substantial amendments to a considerable number of the specific proposals. Unless such changes were made, the Chairmen's Group could not accept the resulting Bill, and would be forced to advise against it.



ANNEX

THE SPECIFIC PROPOSALS

- A1. The Chairmen decided at an early stage that the task of commenting on the specific proposals contained in the Consultation Note was one which should be undertaken by the individual Corporations, in the light of their particular circumstances. Accordingly, this part of the NICG's memorandum is confined to summarising, for convenience, those comments of a major character which have been made by an appreciable number of Corporations, and it does not attempt to be a comprehensive statement of the Corporations' many detailed criticisms of the specific proposals.
- A2. Borrowing and Guarantees. The proposal to remove the restrictions imposed in 1954, and to allow Corporations to have access to capital markets at home and abroad in order to raise debt finance, is welcome. Indeed, doubly so, since it suggests that Whitehall is coming to acknowledge that, for many of the Corporations, money is one of their main raw material inputs, and so reasonable scope to minimise the cost of their funds by exploiting the technical inventiveness of today's fast-changing financial markets is an essential element in their drive for overall efficiency. Unfortunately, however, some allied proposals are much less encouraging in this respect, including those designed to tighten control over short-term borrowings and financial transactions with subsidiaries, which have been widely criticised. So too has the proposal to empower Ministers to require premature re-payment of loans: this is seen both as generally undesirable and as a positive handicap to attempts to develop joint ventures with private sector interests.
- A3. Accounts, Report and Audit. All of the Corporations are very strongly of the view that they should follow the same accounting practices as the generality of large private sector companies, subject only to such minimal departures as are needed to deal with peculiar features of their capital structures. Considerable concern has therefore recently been provoked by suggestions that Ministers' existing powers to issue Accounts Directions might be utilised in a much more active way than has hitherto been the case, with a view to imposing separate accounting rules on the public sector businesses in certain respects, (eg., with regard to the publication of CCA balance sheets). Against this background, there is unanimous opposition to the twin proposals to delete from the Statutes all requirements on the Corporations to follow "best commercial practice", and to empower Ministers to lay down Accounts Directions which could determine "the methods and principles by which the accounts are to be prepared."
- A4. Financial Targets. The Chairmen's Group welcomed the statement in the 1978 White Paper on "The Nationalised Industries" that financial targets, which were to be agreed with the Corporations and to cover a reasonable number of years, were to remain "the primary expression of the financial performance which the Government intends the industries to achieve". Since then, uncertainties have arisen, with consumer groups becoming increasingly prepared to challenge the Corporations in the courts to show that actions necessarily taken to comply with the Government's targets are soundly based in law. The Chairmen's Group therefore accepts the suggestion that Ministers should be empowered to give statutory backing to rate-of-return and similarly-expressed Financial Targets. Even so, there



is very considerable anxiety amongst the Corporations about the form and extent of the proposals. In particular:-

- (a) As suggested in para.10 of the memorandum, Ministers should be put under a requirement to proceed by reaching agreement with the Corporations on the level and nature of their financial targets. Accordingly, the proposal that the setting of targets should be mandatory on Ministers should be dropped.
- (b) Since the setting of financial targets can have wide-ranging implications for many central aspects of the Corporations' affairs, Ministers should be required to secure Parliamentary approval for their exercise of this power by way of the "affirmative Order" procedure.
- (c) Existing break-even requirements should be retained in the Statutes.

- A5. Balance Sheets. The Chairmen's Group recognises that the high level of profitability now being shown by an increasing number of Corporations is giving rise to difficulties with regard to their balance sheets, etc., which were not foreseen when their Statutes were originally enacted. There is, therefore, a case for introducing arrangements which would remove this inflexibility, and so permit the restructuring of balance sheets where the Boards concerned and their sponsor Secretaries of State agree that this would be an appropriate step in the light of particular circumstances facing the businesses involved.
- A6. The proposals put forward in this connection are, however, much more widely drawn than this relatively-limited objective requires. As a result, there is concern that the powers could all too easily be abused, with Corporations first being forced by the Financial Target provisions to generate a higher cash flow than their business situations require, and then being forced by these balance sheet proposals to pass the surplus through to the Treasury. Accordingly, the Chairmen's Group takes the view: (a) that the principles on which any capital restructuring will be based should be discussed and agreed before these proposals are put into legislative form; and (b) that fully adequate restraints should be included in any legislation, along the lines indicated in paragraphs 10(a) and 10(b) of the memorandum, (ie., "affirmative Order" procedure, and agreement with the Boards).
- A7. The Consultation Note is drafted as though, wherever reserves are capitalised, the benefits must necessarily pass to the Government. That is by no means necessarily the case. The businesses themselves must be allowed to retain an adequate level of reserves; and in particular, they must be safeguarded against any loss of reserves which represent provisions against specific future liabilities or CCA adjustments. And as noted in para.13 of the memorandum, consumers may claim that part at least of any reserves have been built up from their contributions and should be used for their benefit.
- A8. The Chairmen's Group welcomes the proposal to allow all Corporations to be equipped with Public Dividend Capital in appropriate circumstances. Currently, most Corporations are still confined within capital structures which reflect the public financing concepts of the late 'forties, and a move to something akin to the three-part capital



structure of private sector companies, (ie., equity, loan capital and reserves), would not only be welcome in itself, but could open the way to wider initiatives.

- A9. Board Appointments. We warmly welcome the general objective which Ministers have in mind in this field, viz. to introduce "more flexible provisions than currently operate", with the object of allowing "instruments of appointment to be negotiated that are more analogous to those found in the private sector". We naturally welcome also the statement that, in this connection, "the Government would hope to agree some general principles with the Nationalised Industries' Chairmen's Group". However, with regard to the basis on which such discussions might proceed, it is the unanimous view of the Chairmen that the detailed proposals drafted by officials are an altogether-wrong place from which to start, since they deal with legislative amendments without addressing the prior question of what sort of arrangements for Board Members these legislative changes are designed to bring about. The Chairmen's Group asks, instead, that matters should begin with full consultation on what is really implied by a wish to create arrangements "analogous to those found in the private sector". If Ministers are prepared to agree to this procedure, we shall be happy to produce a paper as a basis for discussion.
- A10. Formation of Companies and Privatisation. The Chairmen's Group has never adopted any stance on either Nationalisation or Privatisation, which it has seen as essentially-political issues, to be decided through the democratic process; but it has naturally concerned itself with the effects of specific proposals on the practical interests of the businesses, and those of their employers, customers and suppliers. Approaching the proposals in this latter way, there are many points of a detailed character which warrant careful examination. More generally, we would suggest : (a) that primary legislation should be required, not only for any initiative which would involve the complete privatisation of a Corporation, but also for any initiative which would involve the privatisation of any important part of a Corporation's main-line activities; and (b) that even where initiatives concern only peripheral activities, the significance of some of the changes which could result is such as to warrant requiring Ministers to seek Parliamentary approval under the "affirmative Order" procedure.
- A11. Consumer Councils. We trust that the Chairmen's Group will be given the opportunity to comment on the detailed proposals about the organisation of the Nationalised Industry Consumer Councils, which have just been circulated by the DTI's Consumer Affairs Division.





DEPARTMENT OF TRADE AND INDUSTRY cc No

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Secretary of State for Trade and Industry

*BA*  
28 February 1985 *B/P see p. response*  
*AT*  
*1/3*

Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
London SW1P 3AG

*D. Nigel,*

FOLLOW-UP OF MMC REPORTS ON NATIONALISED INDUSTRIES

Thank you for your letter of 11 January about strengthening the follow-up to MMC Reports under Section 11 of the Competition Act 1980. Peter Walker, David Young, George Younger and Patrick Jenkin have now commented on your proposals.

2 I approach those proposals in the belief that MMC investigations under Section 11 are a useful instrument for the promotion of efficiency in the nationalised industries. They are only one of the instruments we use but the detailed published analysis, as well as the MMC's recommendations, provide a valuable public benchmark to enable progress to be measured in the area investigated.

3 I also have very much in mind the weight we have put on Section 11 in resisting the demands for access by the National Audit Office and the PAC to nationalised industries. The MMC Chairman, Sir Godfray le Quesne, has reported to me that, at a recent seminar organised by the Public Finance Foundation, the Chairman and two other members of the PAC and the present and previous Comptroller and Auditor General said that the PAC ought to play the role the MMC is playing. As Sir Godfray has said to me, the force of his rebuttal of the arguments is diminished to the extent that we do not achieve a full programme of substantial references. Strengthening the follow-up to MMC reports will also reinforce our position when the issue comes up again.

4 Turning to your specific proposals, I do not myself share George Younger's reservations about Select Committees. They already have the opportunity to take an interest in MMC reports. Where they take a greater interest no doubt they will seek the views of Government as well as of the industry in the normal way. They are likely to provide a useful additional discipline. I do not see that as usurping the role of Government.

5 As regards a further report at the three-year point,

JH2AHH





we must be careful not to detract from the continuing monitoring of follow-up from the three-month report onwards. There should be very few outstanding recommendations at the three-year point. It should however be possible to see what progress has been made in areas where performance can be measured and achievements identified and I believe it would be useful to have as a matter of routine a report from an industry which would help us in deciding whether or not to go for a re-reference. On the question of publication, I do not think such a document needs to be published, although I personally see no reason why an industry should not be able to produce a published final account of its response to the MMC report at that stage. Industries could also usefully report progress in a summary form in their Annual Reports.

6 As regards a requirement on industries to put forward specific targets for improvement at the 12-month stage I see no problem if you have in mind targets in relation to implementation of the MMC's recommendations. This is something I would expect Departments to be looking for already for the purposes of monitoring follow-up, and normally at the three-month point. I would, however, be against requiring in this context targets for improvement going outside the MMC recommendations. This would only confuse the process of monitoring and ultimately the evaluation of the industry's response.

7 You suggest that follow-up on MMC recommendations should be reviewed in the context of Corporate Plan discussions and the results reported in the collective consideration of Corporate Plans. I would expect this very often to make sense. But we should not be rigid about this at the risk of delaying or complicating Corporate Plan or MMC follow-up discussions. For example it may be sensible for the sponsor Department to ask the industry for six-month follow-up reports after the 12-month report on a cycle which might not fit in with the Corporate Plan timetable.

8 As regards discussion with the MMC on the recommendations they make I see no intrinsic problem. The MMC have become more specific and they do make a large number of recommendations in each report. But I am sure they would find it helpful to know what kind of recommendations would best facilitate the implementation of their reports.

9 To sum up:

(i) I would be happy to speak to the Chairman of the Liaison Committee and for colleagues to speak to their Select Committee chairmen;

(ii) I believe a three-year report would be a useful basis for deciding whether there should be a re-reference in the





fourth year or some other action;

(iii) I agree that industries should normally be asked to include in their 12-month response targets for implementation;

(iv) I agree that the Corporate Plan review and discussions provide a useful occasion for consideration of MMC follow-up, but do not believe that we should tie the two together inflexibly;

(v) I agree that officials should discuss with the MMC the scope for MMC reports being drafted in a way which facilitates follow-up action;

(vi) I believe that (ii)-(iv) should be aired with the Chairmen's Group before adopting them.

If you agree I believe the next steps should be for our officials, in consultation with Departments concerned, to pursue consultation with the Chairmen's Group and with the MMC.

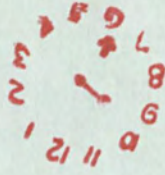
10 I am copying this letter to the Prime Minister, other members of E(NI), the Lord Privy Seal and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', written in a cursive style.

NORMAN TEBBIT



Not Ind : Policy A79



- 1 MAR 1985 -



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COPY NO: 9 of 9



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NI file

C Wilcock Esq  
Department of Energy  
Thames House South  
Millbank  
LONDON  
SW1P 4QJ

Your reference

Our reference

Date

21 February 1985

*Dear Christopher,*

**NATIONALISED INDUSTRIES QUARTERLY MONITORING REPORT (DECEMBER 1984)**

I enclose a copy of those parts of the draft December Quarterly Monitoring Report concerning industries for which you are responsible. This more restrictive circulation than usual again follows from the nature of certain of the material to be included in the report. I intend that the report should go forward to Treasury Ministers early next week and would therefore ask for any comments in the attached material no later than noon on Monday 25 February.

2. A copy of this letter and appropriate extracts from the draft report go, with the same request, to those on the attached list. Where industries are not mentioned in the text of the report, this letter is for information only.

*Yours sincerely*  
*Clive Palmer*  
C A PALMER

*Mr Redwood*

Encs

*As discussed.  
Let me know if  
you want to discuss.  
N.B. This hasn't yet been  
cleared by Dept.*

*See S. Lee*

*21/2*

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NATIONALISED INDUSTRIES QUARTERLY MONITORING REPORT (DECEMBER, 1984)

Note by the Treasury

This Quarterly Monitoring Report is based on returns received in the Treasury during February 1985. It reviews, for 1984-85, the latest estimated outturn for external finance (Table 1) and capital expenditure on fixed assets (Table 2). It sets out industries' actual borrowing up to the end of the third quarter of 1984-85 and compares this with profiles submitted by the industries (Table 3). The Report also briefly reviews prospects for performance against EFLs in 1985-86. All figures are based on the assumption of an end to the miners' strike action at end March 1985.

2. Continuation of the miners' strike has caused markedly increased external finance requirements since the end-September Quarterly Monitoring Report. The total overshoot estimated by the industries affected (the Electricity Supply Industry, British Rail and British Steel, as well as the NCB) is now £2,368 million compared to £1,388 million at the end of the previous quarter.

**A. EXTERNAL FINANCING LIMITS 1984-85**

3. Since the last Quarterly Monitoring Report, the External Financing Limit of the British Steel Corporation has been increased by £70 million to cover the costs of the Corporation buying themselves out of the Firelike iron ore supply contract to the

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extent that these cannot be met by other savings from within the EFL. BNOCs External Financing Requirement has been formally increased by a further £25 million to cover losses made by the Corporation on its participation oil trading during January and February, following the decision to leave its term prices unchanged. Total revised EFLs now stand at £1,924 million compared to £1,881 million at the time of the 1984 Public Expenditure White Paper (Cmnd 9143). Present forecasts suggests an overshoot of £2,100 million on these revised EFLs. This represents an increase of £719 million on the overshoot forecast in the previous Quarterly Monitoring Report and is attributable to the significant deterioration in the estimated outturn forecast by Electricity (England and Wales) resulting from the rolling forward by three months of the assumed end-date of the miners' strike.

## Overshoots

4. Overshoots on EFLs are at present expected from:

	£ million
Electricity (England and Wales)	+1,291
National Coal Board	+706
British Steel Corporation	+178
British Railways Board	+121
North of Scotland Hydro-Electric Board	+43
South of Scotland Electricity Board	+29
British Shipbuilders (Merchant)	+20
Water (England and Wales)	+6

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Electricity (England and Wales) forecast EFL overshoot £1,291 million

5. The forecast overshoot of £1,291 million is an increase of £917 million since the last Quarterly Monitoring Report. The main components of this projected overshoot are additional fuel costs, caused by the high level of oil burn and additional purchases of electricity from the South of Scotland Electricity Board (£1,877 million) offset by reduced coal purchases (£570 million). It will not be possible to quantify the full costs until the strike is over. However the cash cost of the strike has risen significantly in the current forecast as a result of the changed assumption on the ending of the strike and because the rate of decline of coal stocks has slowed, thus restricting the offset against additional oil purchases.

National Coal Board forecast EFL overshoot £706 million

6. The estimated overshoot is £50 million below that forecast in the previous Quarterly Monitoring Report despite the rolling forward of the miners' strike end date assumption. This results from reduced estimates of cash requirements eg for investment and wages and related items if the strike continues to the end of the year. Discussions continue on possible further measures to minimise the overshoot, but the scope for corrective action is limited.

British Steel Corporation forecast EFL overshoot £178 million

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7. BSC's EFL was increased on 13 February by £70 million to £343 million to cover the costs of the Firelake contract buyout (£130 million) which could not be financed by an improvement in BSC performance and additional asset sales (£60 million). The BSC forecast outturn is now expected to be £520 million, the £178 million overshoot being attributable to the costs of the miners' strike.

178  
+ 70  
+ 248

British Railways Board forecast EFL overshoot £121 million

8. BRB estimate an EFL outturn of £1,050 million, the overshoot being entirely due to the effects of the miners' strike. The projected overshoot, however, has increased by only £11 million since the last Quarterly Monitoring Report. BR have been able to reduce the strike effect, primarily by £28 million savings on working expenses and receipts from the sale of Sealink.

North of Scotland Hydro-Electric Board forecast EFL overshoot £43 million

9. The £43 million overshoot is due to higher working capital requirements and the Board's share of additional oil burn generating costs incurred by the Scottish Boards as a result of the miners' strike. This overshoot has been limited by receipts from the sale of Conon Fishings and other surplus assets, and an expected shortfall of £4 million in capital expenditure.

South of Scotland Electricity Board forecast EFL overshoot £29 million

10. The SSEB are forecasting a £29 million overshoot despite a

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£33 million shortfall in capital expenditure; a higher than budgeted nuclear performance and the contribution made to offsetting the additional generating costs incurred in meeting demand from Scottish customers by an abnormally high level of exports to the CEGB.

## British Shipbuilders (Merchant) forecast EFL overshoot £20 million

11. The £20 million overshoot is the result of costs attributable to the sale of Scott Lithgow to Trafalgar House in 1983-84 (redundancy payments and penalty payments on the BP rig). No allowances was made for these payments in the original EFL.

## Water (England and Wales) forecast EFL overshoot £6 million

12. The forecast overshoot has been reduced by £12 million since the previous Quarterly Monitoring Report. Increased capital requirements are being partially offset by increased internal resources.

## Undershoots

13. Undershoots are currently being forecast as follows:

	£ million
British Airways Board	-166 ✓
British Telecom	-79
Civil Aviation Authority	-22
Enterprise Oil	-20

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British Shipbuilders (Warships)	-5
Scottish Transport Group	-1

## British Airways Board forecast EFL undershoot £166 million

14. BA aim to repay just over twice as much debt as their EFL requires (£162 million) as a result of higher than budgetted profits. Capital expenditure is also lower following the airlines decision to lease rather than purchase three new aircraft.

## British Telecom forecast EFL undershoot £79 million

15. BT's reported EFL undershoot at privatisation has increased by £8 million since the last Quarterly Monitoring Report. This estimate remains based upon summary forecast information: a final outturn has still not been received.

## Civil Aviation Authority forecast EFL undershoot £22 million

16. The forecast undershoot arises mainly from higher than forecast income from UK Airspace Traffic Services and Euro-control.

## Enterprise Oil EFL undershoot £20 million

17. This represents EO's outturn external finance position at privatisation in June 1984.

## British Shipbuilders (Warships) forecast EFL undershoot £5 million

18. The forecast undershoot is the result of payments by MOD likely

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to be made earlier than originally expected.

●  
Scottish Transport Group forecast EFL undershoot £1 million

19. Slightly better than expected fare revenue has reduced the requirement for revenue grant by £1 million.

## B. FIXED ASSET INVESTMENT 1984-85

20. Industries' fixed asset expenditure, excluding British Telecom, British Airways and Enterprise Oil (for which no figures were included in Cmnd 9143 in view of impending privatisation) is presently forecast at £4,823 million for 1984-85, representing a £454 million decrease on White Paper plans of £5,277 million (see Table 2). This shortfall disappears entirely if the miners' strike effects upon NCB investment are excluded.

21. Several industries continue to forecast an investment overshoot. The main ones are as follows.

Electricity (England and Wales) forecast investment overshoot £51 million

2. Capital expenditure is forecast to exceed previously authorised levels by £51 million. Supplementary approval requests have been received for this excess; those from the Area Boards have been approved; that from the CEGB (£40 million) is being considered.

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## British Gas Corporation forecast investment overshoot £41 million

23. The overshoot is attributable to drilling platform difficulties on the Morecambe Bay project. An increase of £42 million in capital investment approval for 1984-85 has been agreed and BGC plan to accommodate this within the agreed EFL.

## British Airports Authority forecast investment overshoot £22 million

24. Approval has now been given for BAA to increase its investment expenditure to £150 million to include the projected overshoot. The increase will be financed by higher than expected internal resources.

## Water (England and Wales) forecast investment overshoot £18 million

25. The overshoot reflects the high level of new starts towards the end of last year, general over-programming to offset past slippages and emergency capital investment associated with last summer's drought. The forecast overshoot has been reduced by £3 million since the last Quarterly Monitoring Report.

26. Significant investment shortfalls are currently forecast as follows:

## National Coal Board forecast investment shortfall £462 million

27. The Board are now forecasting fixed asset expenditure of £338 million, some £462 million less than White Paper plans and £90

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million less than forecast in the previous Quarterly Monitoring Report. This slippage is a direct consequence of the strike action.

British Railways Board forecast investment shortfall £78 million

28. The shortfall of £78 million is due mainly to changes in scope or deferral of projects and to lower than expected tender prices.

South of Scotland Electricity Board forecast investment shortfall £25 million

29. The main component of the projected shortfall is reduced expenditure on Torness. However, it must be doubtful whether the Board will be able to recover by the year end a further £15 million of cumulative underspend attributable to non-Torness projects and the investment shortfall could therefore well be higher than the present estimate. Discussions are being held with the Board on Torness and other capital expenditure issues.

## C. QUARTERLY BORROWING PROFILES 1984-85

30. Table 3 sets out details of actual net borrowing during the first three quarters of 1984-85 and compares it with the latest profiles of expected borrowing provided by the industries. The current estimated figures for industries borrowing in 1984-85 are again based on the miners' dispute ending on 31 March 1985. At present industries are forecasting a net borrowing requirement

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of £1,162 million in 1984-85, compared to £341 million at the time the last Quarterly Monitoring Report. The main change is Electricity (England and Wales) where an expected full year borrowing outturn of -£425 million last quarter is now +£494 million consequent upon the miners' strike effects.

31. The industries borrowed £232 million more than profile at end-December. This however masks deviations on individual industries borrowing. Major deviations were as follows:

	£ million
British Airways Board	-95
British Gas Corporation	-80
Post Office	-55
British Steel Corporation	+282
British Shipbuilders (Merchant)	+81
National Coal Board	+64

33. Reasons for these deviations are as follows.

British Airways Board deviation from profile -£95 million

33. The deviation is in line with the Board's aim of repaying fees over twice as much debt as their EFL requires.

British Gas Corporation deviation from profile -£80 million

34. The deviation is mainly due to improvement in working capital

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requirements, partly offset by a deterioration in expected trading results. No significant variance from profile is expected in the final quarter of 1984-85.

Post Office deviation from profile -£55 million

35. Post Office cumulative borrowing at the end of the third quarter was £55 million lower than profile mainly reflecting the higher than expected letter mail traffic and additional counter traffic arising out of the DHSS dispute which have increased both turnover and profit.

British Steel Corporation deviation from profile +£282 million

36. The deviation has resulted from miners' strike effects and Firelake expenditure.

British Shipbuilders (Merchant) deviation from the profile +£81 million

37. Cumulative borrowing stood at £151 million compared with a third quarter profile of £70 million. This reflects the lack of cash generated by new orders originally expected to be taken in the third quarter but now delayed or lost, together with the extra costs arising from the Scott Lithgow sale.

National Coal Board deviation from profile +£64 million

38. This deviation from the third quarter profiles is strike

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related. Final quarter borrowing figures will be reduced by receipt of the Winter Supplementary deficit grant.

## D. PROSPECTS FOR 1985-86

39. Industries' preliminary estimates project an overshoot of £360 million on aggregate EFLs set in the 1985 Public Expenditure White Paper (Cmnd 9428). The main components of this highly provisional figure are the post miners' strike consequentials affecting the NCB, Electricity (England and Wales) and the South of Scotland Electricity Board (accounting in total for an estimated overshoot of £567 million) offset by British Airways expected external financing (-£210 million). No EFL was set in Cmnd 9428 for British Airways as it was then expected that the company would have been privatised before the end of 1984-85. The NCB and Electricity Supply Industry preliminary estimates for 1985-86 external finance are subject to major uncertainty: that for Electricity (England and Wales) could increase by several hundred million/<sup>pounds</sup> dependent particularly upon post strike forward oil commitments and coal restocking decisions.

40. The only other major prospective deviation reported is BS(Warships) who expect to overshoot their EFL by £21 million. This figure reflects changes in the expected sale dates of yards but will be subject to further revision as the disposal timetable becomes clearer.

HM TREASURY

FEBRUARY 1985

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NATIONALISED INDUSTRIES EFL PERFORMANCE1984-85Position as at end-December 1984

£ million

	<u>EFL for 1984-85</u>			<u>Deviations from revised EFLs</u>			
	As in Cmnd 9143	Revised(NIS and other changes)	Latest estimated outturn	As at end- June	As at end- September	As at end- December	As at end- March
NATIONAL COAL BOARD	1103	1094	1800	+506	+756	+706	-
ELECTRICITY (ENGLAND AND WALES)	-740	-746	545	-134	+374	+1291	-
NORTH OF SCOTLAND HYDRO-ELECTRIC BOARD	-2	-3	40	-	+23	+43	-
SOUTH OF SCOTLAND ELECTRICITY BOARD	261	261	289	-1	+27	+29	-
BRITISH GAS CORPORATION	-100	-188	-188	-	-	-	-
BRITISH NATIONAL OIL CORPORATION	-4	66	66	-70	-25	-	-
BRITISH STEEL CORPORATION	275	343	520	-70	+178	+178	-
BRITISH TELECOM	-250	-262	-341	+72	-71	-79	-
POST OFFICE	-52	-60	-60	-	-	-	-
NATIONAL GIROBANK	-1	-1	-1	-	-	-	-
BRITISH AIRWAYS BOARD	-160	-162	-327	-30	-86	-166	-
BRITISH AIRPORTS AUTHORITY	10	10	10	-	-	-	-
BRITISH RAILWAYS BOARD	936	930	1050	-3	+110	+121	-
BRITISH WATERWAYS BOARD	43	43	43	-	-	-	-
NATIONAL BUS COMPANY	66	64	65	-	-	-	-
SCOTTISH TRANSPORT GROUP	16	15	15	+2	-	-1	-
BRITISH SHIPBUILDERS (MERCHANT)	175	137	157	-	+16	+20	-
BRITISH SHIPBUILDERS (WARSHIPS)	-	80	75	-	-	-5	-
CIVIL AVIATION AUTHORITY	20	19	-3	-	-12	-22	-
WATER (ENGLAND AND WALES)	286	284	290	+1	+18	+6	-
ENTERPRISE OIL	-	-	-20	-20	-20	-20	-
<b>Total Industries</b>	<b>1881</b>	<b>1924</b>	<b>4025</b>	<b>+255</b>	<b>+1286</b>	<b>+2100</b>	<b>-</b>

Notes

1. All figures to nearest £ million

2. Because of uncertainties associated with oil trading, the BNOG External Financing Requirement is not expressed as a formal limit.



**SECRET****NATIONALISED INDUSTRIES EXPENDITURE ON FIXED ASSETS****1984-85***Position as at end- December 1984*

£ million

	<u>Expenditure</u>		<u>Deviations from original forecast</u>			
	1984-85 Cmnd 9143	Latest estimated outturn	As at end- June	As at end- September	As at end- December	As at end- March
NATIONAL COAL BOARD	800	338	-202	-372	-462	-
ELECTRICITY (ENGLAND AND WALES)	1265	1316	+56	+47	+51	-
NORTH OF SCOTLAND HYDRO-ELECTRIC BOARD	44	41	+1	-	-3	-
SOUTH OF SCOTLAND ELECTRICITY BOARD	430	406	+8	+8	-25	-
BRITISH GAS CORPORATION	833	874	+8	+41	+41	-
BRITISH STEEL CORPORATION	200	206	+13	+5	+6	-
POST OFFICE	157	150	-	-17	-7	-
NATIONAL GIROBANK	10	14	+2	+3	+4	-
BRITISH AIRPORTS AUTHORITY	128	150	+12	+22	+22	-
BRITISH RAILWAYS BOARD	406	328	-64	-73	-78	-
BRITISH WATERWAYS BOARD	4	5	-	-	+1	-
NATIONAL BUS COMPANY	68	59	-3	-7	-9	-
SCOTTISH TRANSPORT GROUP	20	20	-	-	-	-
BRITISH SHIPBUILDERS (MERCHANT)	109	17	-87	-83	-92	-
BRITISH SHIPBUILDERS (WARSHIPS)	-	84	+88	+88	+84	-
CIVIL AVIATION AUTHORITY	24	19	+1	-3	-5	-
WATER (ENGLAND AND WALES)	778	796	+15	+21	+18	-
<b>Total Industries</b>	<b>5277</b>	<b>4823</b>	<b>-151</b>	<b>-321</b>	<b>-454</b>	<b>-</b>

**Notes**

1. All figures to nearest £ million.

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NATIONALISED INDUSTRIES NET BORROWING1984-85*Position as at end-December 1984*

£ million

	Expected Cumulative Profile			Actual Borrowing			
	As at end- June	As at end- September	As at end- December	As at end- March	Actual borrowing to date	Deviation from profile	Latest estimated outturn
NATIONAL COAL BOARD	132	344	386	278	450	+64	247
ELECTRICITY (ENGLAND AND WALES)	-268	-189	500	-425	544	+44	494
NORTH OF SCOTLAND HYDRO-ELECTRIC BOARD	-13	29	49	17	63	+14	37
SOUTH OF SCOTLAND ELECTRICITY BOARD	44	133	241	286	206	-36	285
BRITISH GAS CORPORATION	-296	-268	-12	-187	-92	-80	-189
BRITISH NATIONAL OIL CORPORATION	-47	-2	4	-4	4	-	-4
BRITISH STEEL CORPORATION	15	68	166	520	448	+282	520
BRITISH TELECOM	-66	-259	-351	-351	-351	-	-351
POST OFFICE	-13	-33	-11	-52	-66	-55	-52
BRITISH AIRWAYS BOARD	-110	-250	-252	-316	-347	-95	-316
BRITISH AIRPORTS AUTHORITY	5	-11	-39	10	-25	+15	10
BRITISH RAILWAYS BOARD	15	7	99	82	68	-31	112
BRITISH WATERWAYS BOARD	1	-	1	1	1	+1	1
NATIONAL BUS COMPANY	-8	-28	-15	-6	-17	-3	-1
SCOTTISH TRANSPORT GROUP	-3	-4	-3	-1	-4	-1	-
BRITISH SHIPBUILDERS (MERCHANT)	30	51	70	124	151	+81	132
BRITISH SHIPBUILDERS (WARSHIPS)	-2	15	26	80	21	-5	75
CIVIL AVIATION AUTHORITY	-5	-14	-19	4	-27	-8	-6
WATER (ENGLAND AND WALES)	-60	35	46	206	91	+45	188
ENTERPRISE OIL	-20	-20	-20	-20	-20	-	-20
<b>Total Industries</b>	<b>-670</b>	<b>-397</b>	<b>867</b>	<b>246</b>	<b>1098</b>	<b>+232</b>	<b>1162</b>

Notes

1. All figures to nearest £ million.
2. All information is derived from industries monthly funds flow statements.
3. BAB and BT figures are provisional.



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CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-233 3299

From the Minister without Portfolio  
The Rt Hon Lord Young of Graffham

The Rt Hon Nicholas Ridley AMICE MP  
Secretary of State for Transport  
Department of Transport  
2 Marsham Street  
London SW1P 3EB

February 1985

*Nicholas*

BRITISH AIRPORTS AUTHORITY

Peter Rees kindly sent me a copy of his letter to you of 4 February in response to your letter of 23 January about the BAA's 1984 Corporate Plan.

As Peter says, a great deal of this is overlaid by major policy matters being considered elsewhere and it is this fact which leads me to intervene in your correspondence now.

I can quite appreciate Peter's anxieties about extending BAA's activities - with the Docklands Stolport and into projects like the Gatwick/Victoria Rail Link. Though I am less worried than Peter about the competition aspects of the BAA's Stolport proposal (because I do not think that in practice there would be much effective competition, anyway, because, as I understand it the Dash 7 is the only aircraft which could use the Stolport), I believe that even with an injection of private capital into the BAA it would look odd for us to be extending the field of operations of a public sector body in these ways.

Rather than fiddling around on the fringes, would it not be a better idea to privatise BAA completely? I hope that in your consideration of the broader airports policy issues you will look again at this possibility very seriously. I can appreciate that there are various pros and cons, and different ways of doing it (I would prefer to see the Scottish Airports and the London ones split), but given the way things are turning out I see considerable advantage in getting BAA out of the public sector at the earliest opportunity.



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

Yours  
David



~~Exam Pol: Privatization: 14~~

BRITISH  
CONSUL  
GENERAL  
MUMBAI

20 FEB 1985





~~CCNO~~

SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Norman Tebbit MP  
Secretary of State for Trade and Industry  
Department of Trade and Industry  
1 Victoria Street  
LONDON  
SW1H 0ET

NBPM  
AT 8/2  
8 February 1985

*Dear Norman,*

FOLLOW-UP OF MONOPOLIES AND MERGERS COMMISSION REPORTS ON  
THE NATIONALISED INDUSTRIES

I have seen Nigel Lawson's letter of 11 January. I agree that it is worth considering how we can squeeze more advantage from MMC reports. I deal with each of Nigel's three suggestions in turn.

First, I hesitate about his suggestion that we encourage greater involvement by Select Committees. The Committee are of course perfectly free to take evidence from the nationalised industries if they wish. But, as we have recognised in other contexts, their involvement can give rise to difficulties - for example by confusing the strict accountability of the Minister to Parliament for the industry's performance, or by encouraging the industries to comment on aspects of Government policy. We cannot prevent these difficulties arising, but I do not think we should encourage them, as we would do if we were to invite closer interest by Select Committees in MMC reports. In any case, we should ourselves have a clear enough idea of what we want to achieve from these reports. It would be odd for us to appear to be asking the Select Committees to do our dirty work.

Second, I agree that we should ourselves follow up the MMC recommendations more rigorously. But I doubt whether the best way to achieve this is through a further report in the third year. The trouble about the existing two reports is, I suspect, that too much effort goes into the drafting and not enough into the action. I would far rather that if there are significant issues still to be followed up after the 12 month report, this be done through the corporate planning/strategic options process.

Third, I certainly agree that the MMC itself might be invited to assist the follow up process by producing more sharply focused recommendations. However if it is to do this effectively, we must be prepared to allow realistic time spans for the original study. We have been inclined in the



past to restrict the study period so that we could keep up the quota of references. In the case of the 1982 Caledonian MacBrayne study this resulted in a report which was not as useful as it might have been. That was our fault, and not the MMCs.

I am copying this letter to the Prime Minister, to Nigel Lawson and other members of E(NI), to the Lord Privy Seal and to Sir Robert Armstrong.

Yours wsr.

George.



Nat Incl: Paraguay Pt 9.



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MR TURNBULL

8 February 1985

FOLLOW-UP OF MMC REPORTS ON THE NATIONALISED INDUSTRIES

In earlier correspondence on this subject, the Prime Minister commented in favour of follow-up reports by the MMC on nationalised industries' responses to its recommendations.

Norman Tebbit is content with the specific arrangements proposed by Nigel Lawson to secure this follow-up action.

Our one reservation about the proposals is that they allow a period as long as three years for a nationalised industry to report finally on its follow-up action. Allowing six months for an MMC report, three years to respond to it, and possibly a period for a follow-up by the MMC, it could take almost a whole term of office to improve the management performance of a backsliding nationalised industry.

Most MMC recommendations relate to basic, good management practice which a good private sector management would implement quite rapidly. For example, the CEGB was recommended to improve its investment appraisal which was found to be "seriously defective and liable to mislead"; the NCB was recommend to make each pit a business unit; London Transport was recommended to introduce cost accounting into its garages and relate manning levels to measured work requirements.

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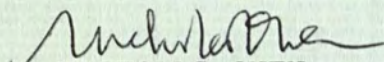


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- 2 -

We recommend that the Prime Minister should ask why nationalised industries should not be expected to report within one year, with a two year maximum.

The correspondence mentions sticks and carrots for the NIs. The stick is clear enough - a published post-audit review by the MMC if progress is not satisfactory. Where is the carrot? Shouldn't the response to MMC recommendations be a factor to be taken into account when considering increases in Board Members' salaries?

  
NICHOLAS OWEN

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NBPM

AT

6/2

NB

CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-233 3299

*From the Minister without Portfolio*  
The Rt Hon Lord Young of Graffham

The Rt. Hon. Norman Tebbit M.P.,  
Secretary of State,  
Department of Trade & Industry,  
1 Victoria Street,  
London, S.W.1.

5th February, 1985

**FOLLOW-UP OF MONOPOLIES AND MERGERS COMMISSION REPORTS ON THE  
NATIONALISED INDUSTRIES**

I have seen Nigel Lawson's letter to you of 11th January on this subject and am writing to say that his proposals seem to me to have much to commend them. There is little point in the MMC carrying out detailed studies of nationalised industries if our follow-up mechanisms give the industries scope to avoid implementation of valid recommendations.

I have also seen Peter Walker's letter of 25th January and am glad that he takes broadly the same view. He suggests that post-audits might stretch the management resources of the industries but I would be reluctant to see us holding off on those grounds since it would remove a powerful incentive for industries to respond sufficiently positively in the first place to render post-audits unnecessary. In the event that it nonetheless became necessary to choose between giving priority to a post-audit or a new reference, I think that it would usually be preferable to opt for the former on the basis that it is better to have a five year gap between references and follow them up properly than to have a four year gap without proper follow up.

As to whether the third year follow-up should be published, to some extent I go along with Peter's point that these reports should be full and frank. On the other hand, the fact that reports are being published and that there is an agreed procedure for reporting back at different stages must serve as useful levers for Departments to bring to bear on their industries.

..../Cont.



Perhaps the answer is a full report to departments but with a summary made available to Parliament and the public.

I am copying this letter to the Prime Minister, other members of E(NI), the Lord Privy Seal and Sir Robert Armstrong.

*James  
Hain*



MAT no: Bluey Pt 9

-6 FEB 1985

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JF

Secretary of State for Trade and Industry

NBPOW AT 5/2 CEN

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET  
TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

4 February 1985

The Rt Hon George Younger MP  
Secretary of State for Scotland  
Scottish Office  
Dover House  
Whitehall  
LONDON  
SW1A 2AU

*D. George.*

SCOTTISH TRANSPORT GROUP : PERFORMANCE REVIEW AND CORPORATE PLAN REVIEW

Thank you for sending me a copy of your letter of 20 December to Peter Rees and the reviews of the STG's performance and corporate plan. I have a particular interest in these because of my responsibilities for the programme of MMC public sector efficiency audits.

2 Although it may be premature at this stage to consider a further investigation of Cal Mac to follow the MMC's 1983 report on the company, the reviews do seem to identify some potentially worrying gaps and inconsistencies in the company's response to that report in the key areas of fares and cost control. We should bear in mind the possibility of a re-reference of Cal Mac in the future if the further improvements you mention in your letter do not materialise.

3 The reviews also raise doubts about the hoped for improvements in the Scottish Bus Group's efficiency following deregulation of the bus industry. You will recall that I agreed to remove the SBG from last year's MMC programme because of the pending deregulation. But we may have to reconsider referring it to the MMC if it cannot consolidate and build on its achievements so far in increasing efficiency.

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

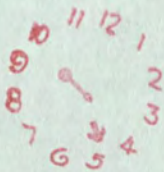
NORMAN TEBBIT

JH2AFN



NAT. IND : Policy : Pt 9.

5 FEB 1985





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NBM

AT

5/2

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nicholas Ridley AMICE MP  
 Secretary of State  
 Department of Transport  
 2 Marsham Street  
 London  
 SW1P 3 EB

4<sup>m.</sup>  
 4 February 1985

*Nicholas Ridley*

BRITISH AIRPORTS AUTHORITY

Thank you for your letter of 23 January enclosing a copy of your Department's review of BAA's recent performance and the 1984 Corporate Plan.

I appreciate that a good deal of this is overlaid by major policy matters which we are considering elsewhere. I was, however, particularly pleased to note that BAA more than met the agreed financial target and exceeded both the performance aims by substantial margins.

I should, however, like to comment on two of the policy options set out in Annex A to the paper, both of which seem inconsistent with the general thrust of privatisation policy.

First, I note that BAA intend seeking your approval to their taking an equity stake in the consortium developing the Docklands Stolport. This seems potentially objectionable on two grounds. First, it would tend to inhibit genuine competition between the Stolport and the other London airports (indeed this seems to be the purpose underlying the proposed investment); and second, whilst BAA remains in the public sector it would represent an undesirable extension of that sector.

Second, is the possible involvement in non-air travel developments. In the example mentioned (the Gatwick/Victoria Rail Link), the asset involved is already in the public sector;

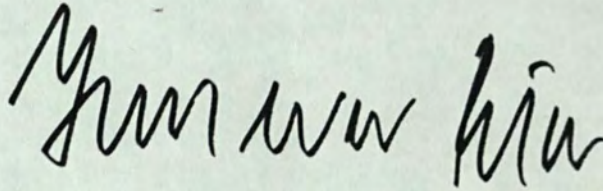
CONFIDENTIAL



CONFIDENTIAL

and I would be disinclined to agree to BAA entering into a joint venture with British Rail unless it proved impossible for BR to obtain a genuine private sector partner.

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

A handwritten signature in black ink, appearing to read 'Peter Rees', written in a cursive style.

PETER REES

CONFIDENTIAL



-5 FEB 1985

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MBM

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Treasury Chambers, Parliament Street, SW1P 3AG  
 Rt Hon Nicholas Ridley AMICE MP  
 Secretary of State  
 Department of Transport  
 2 Marsham Street  
 London  
 SW1P 3EB

1 February 1985

Dear Secretary of State

BRITISH AIRPORTS AUTHORITY:  
REFERENCE TO THE MMC

Thank you for sending me a copy of your letter of 8 January to Norman Tebbit.

Like you, I am most anxious to avoid any investigation into cross subsidy within the BAA by either the MMC or the DGFT. Indeed, in view of the imminence of your White Paper on airport policy and decisions on privatisation I should have preferred to avoid any reference of the BAA to the MCC. However, I agree that the limited terms of reference attached to your letter seem to offer the prospect of least embarrassment and on that basis I am content for the reference to proceed.

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

Yours sincerely

*P. Broadbent*  
 for PETER REES

[Approved by the Chief Secretary]



WAT (M)

Policy No 9

21 FEB 1985



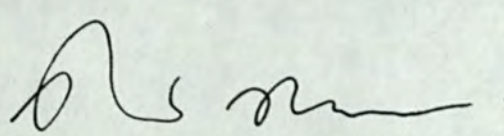


WBSM  
AT 2511  
CENO.

01 211 6402

The Rt Hon Norman Tebbit MP  
Secretary of State  
for Trade and Industry  
1 Victoria Street  
London  
SW1H 0ET

25 January 1985



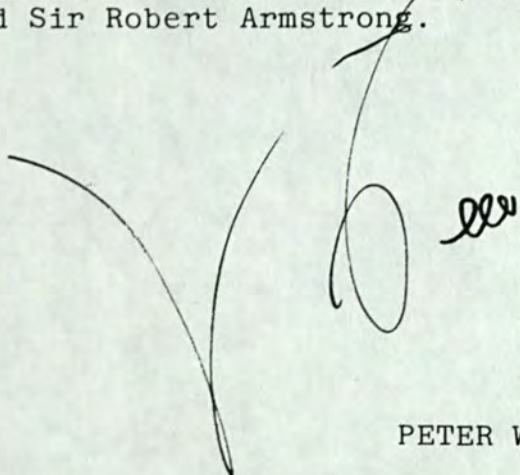
FOLLOW-UP OF MONOPOLIES AND MERGERS COMMISSION REPORTS ON THE  
NATIONALISED INDUSTRIES

I have seen the letter Nigel Lawson sent you on 11 January.

I agree that the three measures he proposes for improving follow-up action on MMC reports would be useful, and for my part I would be ready to approach Ian Lloyd as Chairman of the Energy Select Committee if this is agreed.

I do, however, think it important that the proposed third-year follow-up report should be made by the industries to departments only and should not be published. What we need at that stage is a full and frank document from the industries. I also think that, if we do judge a further MMC post-audit of the original report to be necessary, we must be careful neither to overload the industries' management, nor impair MMC investigation of other - possibly more important - issues, if the post audit coincides with the major fourth-year reference envisaged in our announced procedures. We should therefore need to consider at the time whether the two can be reasonably amalgamated, or whether one or the other would have to be deferred for a year.

I am copying this letter to the Prime Minister, other members of E(NI), the Lord Privy Seal and Sir Robert Armstrong.



PETER WALKER



Policy : NAT ind. P+9.

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25 JAN 1985





RSPM

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25/1

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon George Younger TD MP  
 Secretary of State for Scotland  
 Scottish Office  
 Dover House  
 Whitehall  
 London  
 SW1A 2AU

24 January 1985

*Alan George*

**SCOTTISH TRANSPORT GROUP: PERFORMANCE REVIEW  
 AND CORPORATE PLAN REVIEW**

Thank you for your letter of 20 December 1984 and for the further papers sent on by your Private Secretary earlier this month.

I found the Reviews of STG's performance in 1983 and of their 1984 Corporate Plan very useful and I endorse the comments which you made in your letter. In particular, I think we need to stress to the STG the importance of adapting their business strategy as soon as possible to take account of the impact of bus de-regulation now that the policy is clear. I would view the retention of cross-subsidy in existing plans as their major deficiency. The production of a new financial target for the Scottish Bus Group will, of course, help to provide a steer for Group planning and I look forward to hearing from you on that question in due course.

I was pleased to see the emphasis which you place on matching forecasts of lower bus demand with action on the supply side. I am sure that a proper linkage of this sort is the best way of ensuring that estimates of demand are fully realistic as well as improving profit performance.

Finally, I agree that Caledonian MacBrayne need to be encouraged to examine alternative patterns of service, particularly given the capital intensive nature of their business.

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

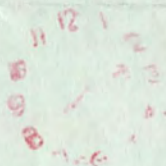
*Maurice Rees*

PETER REES



Not ind: policy: 17 9

25 JAN 1985





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BIF with response  
AT 23/11  
CCND



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1P 3AG

23 January 1985

Dear Nigel

BRITISH AIRPORTS AUTHORITY

Following the arrangements agreed in the wake of the CPRS Report on nationalised industries, I am attaching a copy of my Department's review of BAA's recent performance and 1984 Corporate Plan. I summarise below the main points.

Current position and recent performance

The BAA have benefited from the recovery now evident in the air transport industry. After a period of several years during which there was a slight decline in passengers handled, passenger throughput increased in 1983/84 by almost 6%. Higher income both from traffic operations and from commercial activities, combined with a continuing reduction in costs per passenger, contributed to a trading profit of £52m, almost half as much again as in the previous year. The Authority exceeded the financial target and performance aims agreed with Government, and improved the position at the Scottish airports where financial break-even is expected this year.

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The BAA's capital expenditure programme, dominated by the major projects to construct new terminal buildings at Heathrow and Gatwick, was funded largely from internal resources, and though some temporary borrowing was necessary, the Authority operated well within its external financing limit.

Airport charges increased in 1983/84 by 5% on average, although those at Heathrow were unchanged. The structure of charges underwent some modification to relate them more closely to costs, reflecting the settlement agreement reached with those international airlines who had started a legal action over charges.

#### 1984 Corporate Plan

The BAA have not revised the long-time traffic forecasts used in last year's Corporate Plan but these correspond broadly with the recent forecasts made by my Department.

Our present airports policy is based on the need to provide sufficient capacity at the South East airports to meet forecast demand. The Scottish airports have adequate capacity to meet growth in demand for the foreseeable future. The fourth terminal at Heathrow which is on course to open in November 1985 will increase the capacity of the airport from 30 to 38 million passengers per year (mppa), and the first phase of the North Terminal at Gatwick, which is on course for a mid 1987 opening, will increase capacity from 16 mppa to 21 mppa. Later stages will raise capacity to 25 mppa. The Inspector on the Airport Inquiries suggested there should be plans to increase capacity at Stansted to 15 mppa but these are subject to decisions yet to be taken in the light of his report.



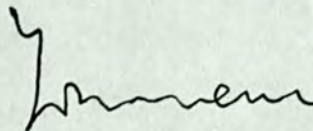
The Board expects profitability to improve as growth continues, and to be able to finance all of its capital expenditure from internal resources. Further changes are to be made to the charging structure: consultations with the airlines on the Board's proposals for the tariffs to come into effect on 1 April 1985 are in progress.

I am satisfied that the level of capital expenditure proposed by the Board is justified and that, as a result of productivity achievements and a continuing tight control of costs, the Authority will operate at the level of its external financing limit this year, and will be able to finance the additional capital expenditure which is necessary to maintain progress on the major projects. The Authority have been given a negative EFL of £21 million in 1985-86 which will be difficult to achieve. But I do not expect the Authority to require external finance in future years. Measures to increase revenue from commercial activities should ensure that these continue to have a significant impact on the level of profits.

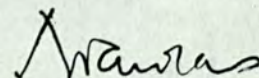
Conclusion

BF //  
I expect to write shortly to E(DL) about how I propose to handle the question of the introduction of private capital into BAA. Meanwhile, I invite you and colleagues to note the results of the 1984 Performance and Corporate Plan Review.

1  
I am copying this letter to the members of E(NI) and to Sir Robert Armstrong.



NICHOLAS RIDLEY





BRITISH AIRPORTS AUTHORITY  
PERFORMANCE AND CORPORATE PLAN REVIEW 1984

1. This review examines the BAA's performance over the financial year 1983/84 and their 1984 Corporate Plan covering the 5 year period to 1988/89.

OVERALL PERFORMANCE REVIEW

2. 1983/84 was a better year for the BAA than had been expected.

The Authority's Airports handled 2.5m (5.7%) more passengers than in 1982/83. Gatwick Airport, in particular, showed a significant increase in passenger throughput, from 11.3m to 12.7m, and this accounted for almost 66% of total growth in passenger traffic in the South East. In Scotland growth in passenger traffic was also uneven, occurring mainly at Edinburgh and Aberdeen.

3. Income from traffic charges rose 8.4% reflecting the increase in traffic and increases in charges. Commercial revenue, which accounted for 48% of the BAA's total income, rose 15%. This made a major contribution to the increase in trading profit of 47%.

4. Changes in the business in volume and financial terms compared to 1982/83 are summarised in the following table:-

	<u>1982/83</u>	<u>1983/84</u>
Terminal Passengers (m)	43.4	45.9
Air Transport Movements (000s)	558.9	580
Cargo (Tonnes)	598.9	652
Turnover (£m)	283	316
Net assets (£m)	930	991
Trading profit (£m)	35	52
Average number of employees	7191	7086

Demand

5. Growth in passenger traffic was virtually static over the period 1980/81 to 1982/83. In 1983/84 passenger throughput started to show significant growth in three main areas: scheduled and charter services to the USA, Canada, and the Far East from Gatwick; domestic services (particularly on the routes linking Heathrow and the Scottish airports where new carriers were licensed); and scheduled and charter travel to Europe from Gatwick.

6. The growth in ATMs at Heathrow (4.1%) was greater than passenger growth at Heathrow, reflecting the increase in licensed services on the main domestic routes using smaller aeroplanes. At Gatwick the change in ATMs was smaller (2.5%) but passenger numbers grew substantially (12.9%). This reflects an increasing use of wide-bodied aircraft on European charter operations and the growth in traffic to North America.



7. Almost three quarters of the total cargo (by weight) handled at BAA airports passes through Heathrow. In value terms this was worth £16.6bn in 1983/84 (£13.6bn in 1982/83). In 1983/84 Heathrow handled 9.4% more cargo by weight than in 1982/83. This reflected an increase in exports, particularly to the United States. Similar increases were noted at major Continental air cargo centres.

#### Development: South East Airports

8. Good progress was maintained throughout the year on the construction programme for Terminal 4 at Heathrow, due to open in October 1985. The total cost at outturn is now estimated to be £200m, well below the original estimate mainly as a result of favourable tender prices. Traffic at Gatwick has continued to grow at a sufficiently high rate to confirm the requirement, in 1987, for Phase I of the North terminal, the construction of which is also proceeding on target.

#### Revenue

9. The overall increase in average charges introduced on 1 April 1983 was 5% but different increases were applied to the Scottish airports (10%), Heathrow (unchanged), and Gatwick and Stansted (15%). Heathrow's charges were kept unchanged partly as a result of the pressure of the airlines' legal action, but it should be noted that the present level of charges is more than sufficient to enable the BAA to meet the RRR on new investment. The real increase at the Scottish airports reflects changes to achieve the break-even target: that at Gatwick the cost of providing new capacity. There were some changes in the structure of the charges to relate them more closely to costs in accordance with the settlement agreement reached with the airlines who were party to the legal action on user charges. Because of changes in the pattern of traffic and in the structure of charges, overall traffic income per terminal passenger was only 3.5% up on 1982/83 at £3.64.

10. Revenue from the BAA's commercial operations continued to increase. Income from concessions, the main source of commercial revenue, was £2.16 per terminal passenger - up 10.8% on 1982/83. Smaller rises in income from rents and services, and other commercial activities, meant that overall commercial income on a unit basis was up 7.6% on 1982/83.

#### Expenditure

11. The total expenditure (including CCA depreciation) was £265m, up 6.4% on 1982/83. Details of costs under main headings are set out below. The major area in which costs increased was "other expenses" reflecting a substantial rise in policing costs as a result of the new arrangements for financing airport security. Labour productivity in terms of passengers handled per employee rose about 6.6% due to the increase in passenger throughput, but also to a reduction of 1.5% in the number of staff. Capital expenditure rose by 34.7% to £132.4m.



Expenditure 1983/84	(£M)	% increase over previous year
Staff Costs	86.4	1.5
Rents and rates	18.9	13.9
Utilities and general services	33.2	4.1
Other expenses	58.1	16.4
Depreciation	68.0	4.3
 Total	 264.6	 6.4

#### Performance against targets

12. The outturn on external finance was £17.9m against an EFL of £32.7m. This under-shoot was due in part to a delay in start of work on the second terminal at Gatwick but also reflected lower construction costs and higher profit. The cash flow deficit was financed by temporary borrowing.

13. A new financial target and performance aims were determined and agreed for the three year period 1983/84 to 1985/86. Drawing on the unsatisfactory experience with previous targets, the new ones were designed to reflect the demand sensitivity of BAA's revenue by incorporating a growth-rated element in addition to an underlying base target. The financial targets are as follows;

a. to achieve a minimum annual rate of return on average net assets of 3 per cent plus one fifth of the annual percentage growth in the number of terminal passengers on a cumulative basis in each successive year. The target is related to trading profit after current cost depreciation but before adjustments for loss on disposal of fixed assets, monetary working capital and before interest and tax;

b. it is an agreed objective that the Authority should achieve break-even at its Scottish airports and this was taken into account in determining the financial target.

14. The targets are supplemented by two performance aims. The Authority will aim:

a. to reduce costs (at constant prices excluding depreciation) per terminal passenger by one half per cent per annum plus an additional reduction equivalent to two fifths of the percentage growth in the number of terminal passengers over the three year period; and

b. to increase the number of terminal passengers handled per payroll hour by one half per cent per annum plus two fifths of the percentage growth in the number of terminal passengers over the three year period.



15. The outturn for 1983/84 is shown in the following tables:

<u>%</u>	<u>Target</u>	<u>Achievement</u>
Rate of Return	4.1	5.4
Costs/passenger	-2.8	-5.0
Passengers/payroll hour	+2.8	+7.5

The BAA achieved significantly better performance than expected on each of the three targets agreed with the Government.

But the "ratchet effect" of the financial target will require higher figures in future years. If traffic continues to grow at 5% per annum the target rates of return for 1984/85 and 1985/86 would be 5.1% and 6.2% respectively.

16. Over the financial year the losses at Scottish airports as a group were £0.6m against £3.3m in 1982/83. But they are expected to break even in 1984/85 and to make a small profit over the 3-year target period.

#### CORPORATE PLAN REVIEW

##### Privatisation

17. The Plan was not prepared with privatisation in mind. The BAA's views were sought and they have made these known. The Board concluded the Authority should be privatised as a whole. They favoured the establishment of a holding company, whose shares would be offered for sale, which would wholly own two separately accountable airport groups created as statutory corporations having duties similar to those of the Authority. The possibilities for introducing private capital into the Authority as being separately considered.

##### General Business Strategy

18. The objectives agreed with Ministers in 1982 and adopted last year (see Annex B) form the basis of the 1984 Corporate Plan. The Plan contains the Authority's operating financial and commercial policies. The recent increase in passenger traffic levels is forecast to continue throughout the 5 year period, the long term forecasts remaining unchanged since they were revised in 1982. The Authority has again submitted a confidential memorandum reviewing a number of policy options.

##### Business Assumptions: Demand and Capacity

19. The Department's recent forecasts reflect more optimistic short and medium term economic assumptions and are broadly in line with those of the BAA, though the Authority's planning forecasts remain above the mid-point of the Department's forecasts. The Authority's more cautious short-term 'budget' forecasts to 1988/89 are, however, consistent with an interpolation of the Department's latest forecasts.



Demand Forecasts  
(million passengers)

BAA South East  
Airports

	1984/85	1985/86	1986/87	1987/88	1988/89
BAA Planning	42.6	45.2	48.2	51.5	55.0
BAA Budget	42.4	44.6	47.0	49.1	51.5
*DTp	41.7	44.0	46.5	49.2	52.0

\*Interpolated from mid-point of DTp's forecasts to 1990.

20. BAA expect passenger traffic at the Scottish Lowland airports to increase from 4.0 mppa to 5.7 mppa by 1990 and to reach 6.9 mppa by 1995. Present capacity is adequate to meet this demand.

21. The present terminal capacity of the South East airports is 48 mppa. This will increase to 56 mppa when Terminal 4 at Heathrow is completed in October 1985; and to about 61 mppa when Phase I of the second terminal at Gatwick is completed in 1987, and some limited improvements are made at Stansted. The need for further capacity in the South East by 1990/91, presently planned for Stansted, is supported by the Department's forecasts.

22. BAA expect the imposition of the ATM limit at Heathrow, and the increasing congestion of the runway at peak hours at Gatwick, to be sufficient to cause some charter operators to transfer voluntarily from Gatwick to Stansted to obtain the freedom necessary to their commercial operations.

23. The Authority's planned expenditure on fixed assets over the period to 1988/89 is £666m. Over the 3 year IFR period, planned expenditure, after allowing for slippage, was £407m. Compared with last year's Plan, the development of Stansted airport has been deferred by one year but firm estimates are now included for the redevelopment of Terminal 3 at Heathrow. About 78% of the total capital expenditure will be required for the four major projects; Terminal 4 and Terminal 3 redevelopment at Heathrow; North Terminal at Gatwick; and Stansted development. £8m will be spent on the development of the cargo area at Heathrow to provide additional transit sheds required by airlines: this reflects the growth of air freight. The capital expenditure programme was cut slightly following the IFR discussions.

CAPITAL EXPENDITURE ON FIXED ASSETS IN THE UK (POST IFR)

	£m
1985/86	117
1986/87	139
1987/88	139
	<u>395</u>

Financing of Capital Expenditure

24. The Authority estimates that it will be able to finance all of its capital expenditure from internal resources.

Revenue

25. In line with the Settlement Agreement with the airlines, further changes will be made to the charging structure. These include bringing charges at Gatwick closer to Heathrow levels, and increasing charges at Stansted while keeping the present differential of these



with Gatwick until the major development starts. Scottish charges will be set so as to meet the break-even target in 1985/86. The Board propose to carry out a critical examination of the costs imposed by small aircraft in the light of runway capacity limitations; and charges for parking will be more closely related to costs imposed by different aircraft. Changes will be introduced gradually but the Board expect to introduce new charges in April 1985 which will be substantially cost related.

26. The Plan assumes that commercial revenue per passenger will remain constant. Detailed plans, following the creation of a new trading department, are being developed to exploit market opportunities. An analysis of market features is underway, and present performance suggests that there are still profitable growth opportunities within existing fields of activity. Space constraints limit the opportunity for a radical increase in the number of retail units; but the new product development efforts have been increased and should begin to be productive during the plan period.

#### Costs

27. Staff wages are expected to rise in line with inflation, and though staff numbers should increase sharply, as the new terminals are commissioned, employee productivity will continue to improve.

<u>Staff Numbers</u> (31 March)	<u>% increase</u>	<u>Estimated Traffic</u> <u>Growth %</u>
1983/84 6961	-	
1984/85 7280	4.5	5.6*
1985/86 7551	3.7	5.0
1986/87 7637	1.1	5.3
1987/88 7731	1.2	4.6
1988/89 7793	0.8	4.8

\*Original estimate - likely outturn is 10%

#### Planned Performance against Targets

28. Details of the targets are shown in paragraphs 14 and 15. The projected outturns are:

- a. Financial target. In the final year of the target period, 1985/86, the Board expect the rate of return to be 5.8% against a target of 6.3%. This shortfall was expected and reflects the increase in costs of commissioning Terminal 4 in 1985. But over the 3 year period 1983/84 to 1985/86 the average return is expected to be 5.7% against a target of 5.3%. This follows from returns above target in the first two years.



- b. Scottish Airports. The Group is expected to achieve breakeven in the year 1984/85 and to have moved into profit in 1985/86 when the present target period ends.
- c. Costs per passenger. The BAA expects to improve on target again in 1984/85 but, as expected, to fall short of the three-year target as a result of increasing staff numbers when terminal 4 opens in 1985. A result of 6.1% over the period is forecast against the growth related target of 8.4%.
- d. Passengers per payroll hour. BAA are content that they will beat this performance target by achieving an increase of 10.4% in passengers/payroll hour against the growth related target of 8.4%.

### Profitability

29. The authority expects total income and resulting trading profit to be as follows:

£ million	1983/84 (actual)	1984/85	1985/86	1986/87	1987/88	1988/89
Income	316.2	351.7	389.7	433.2	472.5	517.7
Trading Profit	51.6	60.9	67.4	73.5	82.9	101.1
Return on average net assets (%)	5.4	5.7	5.8	6.0	6.3	7.2

30. Forecast trading profits are lower than those in the 1983 Plan due to lower inflation assumptions. But the returns on average net assets remain broadly in line with present targets reflecting the lower capital costs and the lower asset values arising out of the revised inflation assumptions.

### Sensitivity

31. As recognised in the target formulation, BAA's profitability is very sensitive to traffic demand; costs much less so. Nevertheless, even on its low traffic forecasts the Authority project continuing profitability and a rate of return on net assets averaging about 5% per annum.

### Threats and Opportunity

32. The most significant uncertainty concerns the outcome of the Stansted/Terminal 5 public inquiry. New capacity in the South East is essential to sustain the growth of the business in line with the Plan. Transfer of traffic from Heathrow to Gatwick earlier than planned would increase congestion there and some interim development to cater for demand at peak hours may be necessary at Stansted.

33. In Scotland the outcome of the review of the Scottish Lowland airports could also have a substantial impact on capital expenditure and the business proposals of the Group.



## Review Conclusion

34. The Authority's Corporate Plan provides a realistic framework for the continued development of the business within the public sector, to meet the expected growth in the traffic demand to the year 2000. Profitability is expected to improve as growth continues, as new facilities with lower operating costs per passenger are introduced at the South East Airports, and as the Scottish Airports move into profit. The present financial target and performance aims recognise the sensitivity of BAA's profit to traffic growth but will require continued downward pressure on costs if they are to be achieved. Discussions on a new target will be set against the forecasts in the 1985 Plan.

35. During the 5 years covered by the Plan the Authority will complete and commission Terminal 4 at Heathrow, and expect to redevelop Terminal 3 in order to remove capacity constraints and introduce modern equipment and a higher standard of facilities. At Gatwick Phase 1 of the North Terminal will be commissioned and, subject to the decision on the public inquiry, work should start on the development of Phase 1 of Stansted for completion in 1989/90. Whilst the Authority is rightly concerned to minimise the risk of under-capacity, the phasing of developments will be carefully controlled.

36. The BAA believe the Scottish Airports have adequate capacity for the foreseeable future - but the review of Scottish lowlands airports policy could affect this.

## Further Policy Options

37. The Board has considered a number of more sensitive longer term strategic options for the business which are not included in the Corporate Plan. These were set out in a separate confidential memorandum submitted to the Secretary of State. Comments on the main issues are set out in Annex A.



BAA CORPORATE PLAN REVIEW  
FURTHER POLICY OPTIONS

CAA Highlands and Islands Airports

1. As a result of the Government's statement of intent to sell seven of these airports, BAA have studied their viability. The Board has concluded there are no financial grounds to purchase any.

STOLPORT

2. BAA estimate that loss of traffic to STOLPORT would result in a loss of revenue of about £2.6 million per annum by 1990 (1984 prices). The Board wishes to minimise the financial effects as well as any operational conflict, and subject to the approval of the Secretary of State, will seek to join the consortium developing STOLPORT. An equity stake of between 10% and 20% is considered by the Board as representing a sensible stake which would protect the BAA interests. Participation would be by invitation since a public issue of shares is not contemplated, but the developers (Mowlems) seem keen to gain access to BAA's expertise.

South East Development Strategy

3. The Board believe that split development of required new capacity between Heathrow and Stansted should be rejected. This view has been reinforced by the rapid increase in ATMs at Heathrow so that full use of the capacity of the fourth terminal may be harder to achieve. The Inspector, in his report on the Stansted/Terminal 5 public inquiries', has now recommended development of Stansted up to 15 million passengers a year and the subsequent construction of a 5th terminal at Heathrow.

Duty Free Sales on Arrival

4. The Board have indicated they intend to carry out a further study of this possibility during 1984. This reflects continuing pressure from consumer groups and others that the present arrangements are unsatisfactory in that the carriage of large quantities of liquor on aircraft increases the risk of fire and unnecessarily reduces passenger comfort.

Previous studies have concluded that sales to passengers on arrival at airports would cause considerable practical difficulties by disrupting the flow of passengers whose main concern is to recover their baggage and leave the airport as quickly as possible; would require considerable additional investment in redesigned terminal facilities; and would be inconsistent with international agreements which restrict such sales to departing international passengers only.

Cargo Developments

5. Following the Board's decision to consider the provision of further facilities for surface and air cargo, they have developed a scheme to provide further transit shed accommodation on the airport, and to develop a transshipment facility outside the airport boundary to facilitate trucking. The Board intend to develop their final proposals during 1984. The scheme will probably be financed by private capital.



### Non-Air Travel Related Activities

6. The Board is identifying opportunities for involvement in commercial non-air travel developments outside the airports.

A prime example is the Gatwick/Victoria rail link. A joint venture company with BR is being considered: this company would own and operate the link including the facilities at each end. This would enable BAA to influence both management and marketing of the service. It will be necessary to consider where the Authority should be given more commercial freedom to undertake such initiatives.

### Long-Term Future of Aberdeen Airport

7. Studies are to be taken on the long term prospects of the airport. Although this is not an immediate priority, with the likely contraction of the North Sea oil activity by the end of the century, the long term profitability of the airport may be doubtful. Capital investment is almost completed however, and the airport is expected to remain profitable in the medium term.



## 2. OBJECTIVES AND TARGETS

### OBJECTIVES OF BAA

2.1 The Authority's primary objective is to respond to the present and future needs of air transport in an efficient and profitable way by operating, planning and developing its airports so that air travellers and cargo may pass through safely, swiftly and as conveniently as possible.

In support of this overall objective, the essential policies are:-

To maintain, using the regulatory framework, high standards of safety for aircraft, passengers and airport staff, and to ensure that these standards match development in the air transport industry.

To ensure, within the limits of the Authority's powers, high standards of security against terrorism and crime in its airports.

To ensure as far as possible that it meets the financial and performance aims, external financing limits and other targets agreed with the Government from time to time.

To maintain, as a public enterprise, a competitive and commercial approach to its operations, and to improve operating efficiency.

To provide facilities at the airports such as are necessary to enable them to meet the needs of air transport in a safe and cost effective manner.

To improve, as far as its powers permit, the range and quality not only of services offered to its customers, but also those provided by other organisations and to have regard to the best practice of other airport authorities in the UK and abroad.

To develop and uphold a high standard of design in every aspect which is cost effective and visually and functionally appropriate.

To ensure, as a good employer, fair pay and conditions of service for employees and to encourage a working partnership leading to higher productivity and higher standards of service



to the public through proper arrangements for participation, consultation and negotiation.

To operate in harmony with the communities adjoining its airports and to seek to maintain a balance of interest between those communities and the needs of air transport through the provision of adequate facilities for consultation.

To market its skills and experience in its own specialist field both in its own right and in support of the efforts of other British contractors and suppliers in the service of the air transport industry.





JU855

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

NBPM AT 24/1

CCNO

23 January 1985

The Rt Hon Nicholas Ridley MP  
Secretary of State for Transport  
Department of Transport  
2 Marsham Street  
London SW1

*D. Nicholas,*

COMPETITION ACT S.11 : REFERENCE OF BRITISH AIRPORTS AUTHORITY

Thank you for your letter of 8 January.

Could I first say that I hope very much that we can make a BAA reference very soon. We have announced a full programme of six references for 1985 and we need to get it under way now if it is to be carried out in an orderly fashion.

I am content with the terms of reference attached to your letter. I agree that it would not be practicable to preclude the MMC from looking at the level of profits made by BAA on their commercial activities. There will therefore be a risk of an adverse public interest finding on those profits. But the terms of reference require the MMC to focus on the efficiency, costs and service of the BAA in its commercial activities: this seems to me an entirely characteristic Section 11 reference in that respect. Once the MMC has reported, further action is a matter for the Government and the BAA. I should perhaps add that Section 11 precludes the MMC from considering the appropriateness of any financial objectives given by Ministers. The explicit exclusion of the cross-subsidy may, however, disappoint consumer interests.

You wonder whether the nettle of the duty-free profits should not be grasped later. The only way of avoiding a Section 11 report which casts doubt on the level of profit on BAA's commercial activities would be to refer the non-commercial activities instead or not to make a BAA reference at all. But as you note there is also the position of the Director General of Fair Trading to consider.

The Director General would favour terms of reference for a Section 11 investigation which explicitly invited the MMC to consider both the level of profits and the cross-subsidy.





However, he has told me that if we make a reference along the lines proposed he will not continue his own investigation at the same time. Whether he would take action following the Section 11 report cannot be foreseen at this stage.

I have not pressed the Director General as to what his position would be if the reference were not made. Moreover, given that he is the recipient of a large number of consumer complaints about duty free prices, he might well feel obliged to make a reference to the MMC under his own powers. I would be able to veto the reference but, bearing in mind in particular my own responsibilities for consumer as well as competition matters, I would not be disposed to exercise it.

I conclude that we should proceed with the reference, acknowledging the risk to the policy (or degree) of cross-subsidisation, but be prepared to consider whatever the MMC recommends. I hope we can resolve the matter on this basis early next week.

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

A handwritten signature in dark ink, appearing to read 'Norman Tebbit', with a stylized flourish above the name.

NORMAN TEBBIT



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Policy RE 9

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24 JAN 1985



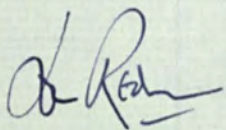
NBSM  
AT 17/1

16 January 1985

MR TURNBULL

I have seen Nigel Lawson's letter to Norman Tebbit concerning the follow-up of MMC reports.

I agree with the Chancellor's recommendations.



JOHN REDWOOD



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Policy Part 9

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177 JAN 1985

THE CHURCH OF ENGLAND  
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1984-85  
GENERAL RESOLUTIONS  
PART 9  
POLICY PART 9

GENERAL RESOLUTIONS

10





Too late for response

AT 15/1

BIP 23 Feb

CC Policy Unit

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

The Rt Hon Norman Tebbit MP  
 Secretary of State for Trade  
 and Industry  
 Department of Trade & Industry  
 1 Victoria Street  
 London SW1H 0ET

11 January 1985

*John Norman*

**FOLLOW-UP OF MONOPOLIES & MERGERS COMMISSION REPORTS ON THE NATIONALISED INDUSTRIES**

I have been considering whether in seeking greater efficiency in the nationalised industries we might not make a fuller and more systematic use of MMC reports.

We now have a substantial number of reports, many of them of good quality and containing constructive recommendations. When they contain a formal finding that an industry is in some respect operating against the public interest, Departments no doubt make it their business to ensure that effective remedial action is taken. I am much less certain that we have found the right formula for following up the large number of recommendations which fall short of a formal public interest finding. Some of these may not individually be of enormous weight but taken together, they are likely to have a sizeable impact on efficiency. You will remember the Prime Minister's minute of 26 September last year reflected a similar concern about the effectiveness of follow-up action.

At present we require an industry to produce an initial response about 3-4 months after the report is published and a further statement after 12 months, explaining the action taken and the results achieved. This publicity is useful so far as it goes. But it is all too easy for an industry to get away with a bland statement of good intentions at the first hurdle and a generalised account of progress at the second.

I should like to see some reinforcement. One straightforward way of tackling this problem would be by the systematic use of Value for Money audits. But the industries have proved





unwilling to undertake this voluntarily; and colleagues were reluctant to see powers to direct VFM audits included in the Nationalised Industries Bill when this idea was floated during last summer, although it was agreed that the Government would be willing to include such powers if pressures for them developed during the Bill's passage.

Irrespective of VFM powers, there are a number of lines of action which seem to me worth pursuing. First, Select Committees could be encouraged to take a much closer interest in the MMC reports relating to their industries. The Committees commonly take evidence from the more important of their industries and from sponsor Departments each year; they have access to MMC reports and to the industries' annual reports; and it would be a wholly beneficial development if they were to question the industries on the action that had been taken in response to MMC criticisms. (It would also incidentally help to divert into more constructive channels the Parliamentary pressure for direct C&AG access to the industries which we had to face in the last Parliament and which could easily recur). If you agree, I would hope that John Biffen would be content for you to have an informal word with the Chairman of the Liaison Committee to see whether the Select Committees might be encouraged to move in this direction. Colleagues might also like to make parallel approaches to the Chairmen of their own Select Committees.

Second, I believe the MMC post-audit is a tool that we might use to greater effect. This was specifically referred to by the Prime Minister and we have of course already used it in looking at Post Office mail services in London. Our present policy is that each nationalised industry should have at least one major reference every four years and I do not think we should alter that. But we need to put more effort into following up the recommendations of past enquiries. To do this, we might build on the industries' general dislike of MMC references and, in particular, use the threat of a second reference after four years as an incentive to follow up the first convincingly.

What I have in mind is that the industries should be invited to report to Departments on the results of implementation in the third year after the original report. This would not simply be a further routine statement but a highly specific and, wherever possible, quantified account of improvements actually achieved. This response would be considered by the sponsor Department, DTI and Treasury who would recommend to Ministers either that the industry's response was wholly satisfactory (in which case there would be no need for any





further action in this area - except possibly a congratulatory letter to the Chairman); or that the action taken appeared to fall well short of what was necessary - in which case a full post-audit by the MMC would be needed, whether or not additional to a study of other aspects of the industry's business. If the results did not fall clearly in either of these categories, the industry might, as an intermediate option, be invited to accept a Value for Money check into the implementation of MMC recommendations by their own auditors or consultants (whose report would be shown to the sponsor Department).

The aim of this procedure would be to present the industries with both stick and carrot to encourage them to implement MMC reports and so keep the detailed involvement of officials to a minimum. Thus, the industries might routinely report in the context of Corporate Plan discussions on action taken on past MMC reports, with a separate, detailed and (where possible) quantified report at the third year stage.

Third, the MMC might themselves contribute to better follow-up (and to the procedures described above) if their recommendations were more sharply focused, eg if their reports more frequently contained an action plan and, wherever possible, suggested quantified performance indicators in the area of improvement. The MMC has made some progress along these lines; but more could still be done. This is something which might be discussed with MMC officials.

These suggestions are set out briefly in the attachment to this letter. But to sum up, I am proposing:

- greater involvement by the Select Committees in follow-up to MMC reports;
- a more systematic appraisal in the third year of how industries have responded with the possibility of an additional post-audit, either via the MMC or by other means;
- where possible, MMC reports to be more sharply focused.

... I am copying this letter and enclosure to the Prime Minister, to other members of E(NI), to the Lord Privy Seal and to Sir Robert Armstrong.

NIGEL LAWSON

A handwritten signature in dark ink, appearing to read 'Nigel Lawson', written over a horizontal line.



SUGGESTIONS FOR MORE EFFECTIVE FOLLOW UP TO MMC REPORTS

- (a) The Secretary of State for Trade & Industry should speak to the Chairman of the Liaison Committee informally, to suggest that departmental Select Committees might take a closer interest in MMC reports and subsequent follow-up. Sponsor Ministers might also take this up directly with Select Committee Chairmen.
- (b)(i) At the 3-year point, the industry should provide a full, and wherever possible quantified, report on the results of their implementation of the MMC report. Ministers would then decide whether:
- (a) no further action was required;
  - or (b) an additional MMC post-audit reference should be made in the fourth year (possibly combined with fresh areas for study);
  - or (c) the industry should be invited to agree to a VFM audit of the MMC recommendations by their financial auditors or consultants (copies to be shown to sponsoring Departments).
- (ii) In responding, at the 12-month stage, the industries should be asked to propose specific targets for improvement by the 3-year point.
- (iii) Progress in implementing MMC recommendations should be examined when an industry's performance is reviewed in the context of Corporate Plan discussions; and the results reported in the Secretary of State's paper when Corporate Plans are circulated for collective consideration.
- (c) Officials should discuss with MMC whether their reports could facilitate follow-up more easily (e.g. by recommending an action plan and specific performance indicators).





*D/P use DTI envelope.*  
AT 9/11

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

*cevo*

The Rt Hon Norman Tebbit MP  
Secretary of State for Trade and Industry  
1 Victoria Street  
LONDON  
SW1

8 January 1985

*Dear Norman*

NATIONALISED INDUSTRY REFERENCES TO THE MMC: BRITISH AIRPORTS AUTHORITY

We have announced that a reference of "an aspect of the BAA" is to be included in the MMC programme for 1985. And I had agreed with Norman Payne that the reference should be made as early in January as possible, and should be in relation to the Authority's commercial activities.

Officials have discussed and agreed the attached terms of the reference. I am content with this though we need to be aware that there is a risk that the Commission may take the view and report that the level of profits earned by the Authority on its commercial activities is against the public interest: officials have not found it possible to draft the terms of reference in a way which would avoid this risk without circumscribing them to an unsatisfactory extent.

If MMC do comment on this way we would be faced with a difficult choice between rejecting their view on the grounds that these profits subsidise traffic operations to the benefit of travellers generally, or, of forcing up airport charges with all that that entails. I do not think the risk is great and we should be criticised when the reference is published if we excluded the prices and profits, though the reference makes it clear that the cross-subsidy is not to be reported on.

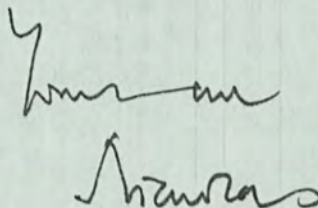
There is a rather greater risk of an investigation by the DGFT whose preliminary inquiries into duty free prices at the Authority's airports were suspended pending this reference. He may now decide to proceed with an investigation, not only on prices but on the cross subsidy. Again we may be faced with having to declare publicly Government support for the duty free profit margins and the cross subsidy.



We have as you know endorsed both in determining the Authority's financial target which was based on a joint assessment of economic costs and the forecast revenues from various sources which were available to offset these. And we have openly supported the continuation of duty free sales at airports on the grounds that the profits from these enabled the airport authorities to keep airport charges lower than would otherwise be the case.

We may have to grasp this nettle sooner or later. But it might be better not to grasp it now, when the whole question of airports policy is under consideration. It even has implications for Stansted! However it would be very awkward, if the DGFT decided to carry out his own investigation, a possibility made more likely if there was no investigation by the Commission. I don't know whether you would be able to prevent this happening. If this were likely to happen, it would be better to proceed with the reference. I would be glad to know if you and colleagues are content with the terms of reference, and also your views on the potential problems I have mentioned. If we are to make a reference, I understand that this should be done as early in January as possible to fit in with the rest of the MMC's programme.

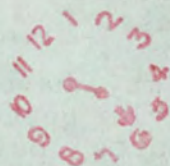
I am sending a copy of this letter to the Prime Minister, to other E(NI) colleagues and to Sir Robert Armstrong.



NICHOLAS RIDLEY



-9 JAN 1985





Date: 14.12.84

Ref: ABCAAJ

REFERENCE

UNDER SECTION 11 OF THE COMPETITION ACT 1980

The Secretary of State, in exercise of his powers under section 11(1)(a) and (b) of the Competition Act 1980, hereby refers to the Monopolies and Mergers Commission ("the Commission") the questions set out below relating to the efficiency and costs of and the service provided by the British Airports Authority ("the Authority") in its commercial activities.

For the purpose of this reference -

"commercial activities" means the following activities carried on by the Authority, namely -

- (a) the making of arrangements, whether by concession or otherwise, to sell goods by retail, provide public catering facilities, operate chauffeur driven car hire services, operate public car parks and provide other services to the public;
- (b) the making of arrangements, whether by licence, contract or otherwise, for the provision of services to airlines including the provision of services by one airline to another;
- (c) the granting of leases of land including the granting



of consents to assignments of such leases and the general administration of such leases.

The Commission shall upon this reference investigate and report on the following questions -

(1) whether in carrying on its commercial activities the Authority could improve its efficiency or reduce its costs or improve the service provided, with particular reference to:

- (a) the scope for increasing competition at the point of sale, having regard to security and safety requirements and the need to ensure the comfort and convenience of passengers and the efficient operation of the airport;
- (b) the methods and practices of the Authority in selecting the persons to whom concessions are to be granted including the Authority's procedures for inviting and accepting tenders, the imposition on concessionaires by the Authority of contractual terms relating to the price, nature, range and quality of the goods and services to be provided by concessionaires and the award and renewal by the Authority of contracts;
- (c) the monitoring and control by the Authority of the standard of services provided to passengers by concessionaires;



- (d) the administration and management by the Authority of leases of land where the Authority is the lessor;
- (e) the scope for increased private sector participation in and finance for the Authority's commercial activities; and

(2) whether in relation to any matter falling within the question set out in (1) above, other than the matter of the application of the Authority's revenues to finance any of the Authority's activities which are not commercial activities, the Authority is pursuing a course of conduct which operates against the public interest.

The Commission shall report upon this reference within a period of six months beginning on the date hereof.

1985.

An Assistant Secretary,  
Department of Trade and Industry.



8 JAN 1985

11 12 11  
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7 11 4





Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MBE MP  
 Secretary of State  
 Department of Energy  
 Thames House South  
 Millbank  
 London  
 SW1P 4QJ

8 January 1985

*Dear Secretary of State*

**NATIONALISED INDUSTRY INVESTMENT APPROVALS**

We can now give nationalised industries formal approval for investment levels in each of the next three years.

... I enclose a table which sets out industries' planned level of fixed asset expenditure in the UK for the years 1985-86 to 1987-88. The NCB is excluded from the list in view of the need to review their financing and investment levels once the miners' dispute is ended. BS (Warshipbuilders) is also excluded as the yards will be privatised in the course of 1985-86. Otherwise, assumptions made on privatisation are the same as those adopted in the recent IFR. The planned investment figures have been taken from returns submitted by Departments and will be included in the forthcoming Public Expenditure White Paper.

I should be grateful if you and other colleagues would now give your industries formal approval as usual to spend up to 100 per cent of sums listed for 1985-86, 85 per cent for 1986-87 and 70 per cent for 1987-88. The attached table shows the approved investment allocations calculated on this basis. All figures are consistent with the external financing limits which we agreed in this year's Investment and Financing Review.

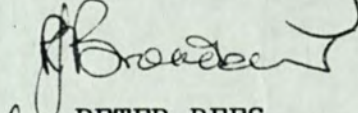
Current monitoring returns show certain industries may be planning to exceed their approved investment levels for 1984-85. This can, of course, only be done with our approval and industries should be reminded of this as necessary. Any unauthorised overrun of this year's approvals is liable to be recouped next year.



CONFIDENTIAL

Decisions that we take in each year's IFR are of course not very meaningful unless industries use them as a basis for their future planning. It is not unknown for corporate plans and future years' bids to contain financing assumptions quite unrelated to previous Ministerial decisions. Officials will shortly be circulating detailed baseline figures for individual industries over the next three years and I would be grateful if you and other colleagues could ensure that these figures are sent to Chairmen and are fully assimilated into industries' future plans.

I am copying this letter and attachment to the Prime Minister, other members of E(NI), the Secretary of State for Wales and to Sir Robert Armstrong.

Yours sincerely  
  
for PETER REES

[Approved by the Chief Secretary]

CONFIDENTIAL



NATIONALISED INDUSTRY FINANCING

Expenditure on Fixed Assets in the UK

Investment Approvals 1985-86 to 1987-88

	<u>1985-86</u>	<u>1986-87</u>		<u>1987-88</u>	
	Approved expenditure	Estimated expenditure (a)	Approved expenditure (85% of (a))	Estimated expenditure (b)	Approved expenditure (70% of (b))
ELECTRICITY (ENGLAND AND WALES)	1182.0	1098	933	1057	740
NORTH OF SCOTLAND HYDRO-ELECTRIC BOARD	51.5	61	52	53	37
SOUTH OF SCOTLAND ELECTRICITY BOARD	321.9	265	225	195	137
BRITISH GAS CORPORATION	677.0	636	541	683	478
BRITISH STEEL CORPORATION	196.0	182	155	176	123
POST OFFICE	134.0	126	107	121	85
NATIONAL GIROBANK	10.9	10	9	11	8
BRITISH AIRPORTS AUTHORITY	117.0	139	118	139	97
BRITISH RAILWAYS BOARD	482.0	492	418	493	345
BRITISH WATERWAYS BOARD	6.0	7	6	6	4
NATIONAL BUS COMPANY	70.0	0	0	0	0
SCOTTISH TRANSPORT GROUP	18.5	18	15	18	13
BRITISH NATIONAL OIL CORPORATION	.2	0	0	0	0
BRITISH SHIPBUILDERS (MERCHANT)	21.0	18	15	17	12
CIVIL AVIATION AUTHORITY	23.0	26	22	28	19
WATER (ENGLAND AND WALES)	852.0	914	777	964	675
LONDON REGIONAL TRANSPORT	184.0	184	156	184	129

Notes

- (1) 1986-87 and 1987-88 figures rounded to nearest £million  
(2) NCB expenditure to be reviewed at end of miners strike.  
(3) BNOC figures round to zero. The approved figures for 1986-87 and 1987-88 are £0.26m and £0.21m respectively.





NBPM  
A7 10/1  
cc NB  
SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

Richard Broadbent Esq  
Private Secretary to the  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

9. January 1985

Dear Richard,

SCOTTISH TRANSPORT GROUP: PERFORMANCE REVIEW AND CORPORATE PLAN REVIEW

I refer to my Secretary of State's letter of 20 December to the Chief Secretary enclosing copies of Reviews of STG's performance for 1983 and of their latest Corporate Plan for 1984-89. Unfortunately the enclosures were incomplete and in order to avoid any confusion I now attach complete copies which should be substituted for those enclosed with my Secretary of State's letter.

I am copying this letter and attachments to the Private Secretaries to the other members of E(NI) and to Richard Hatfield.

Yours sincerely  
Eddie Gowans  
EDDIE GOWANS  
Private Secretary



## SCOTTISH TRANSPORT GROUP - PERFORMANCE REVIEW 1983

Introduction

The Scottish Transport Group was formed on 1 January 1969 as a public authority under the Transport Act 1968. The 3 principal subsidiaries of the Group are the Scottish Bus Group (SBG), Caledonian MacBrayne (CalMac) and Scottish Transport Investments Ltd (STIL).

SBG is the largest single provider of bus services in Scotland. It has 7 operating subsidiaries whose principal business is local stage carriage services. The subsidiaries also, to differing degrees, operate express services, private contract and hire and tours.

CalMac operates sea transport services on the Clyde Estuary and on the west coast of Scotland.

STIL provides a variety of complementary and ancillary activities including management services, road haulage, travel and tourism, and insurance.

Summary of 1983 Performance for STG as a whole

Traffic on all operations increased on the 1982 level.

Pre-tax profits increased slightly over 1982.

The Group operated within its EFL (ie 1983/84).

The Group met its medium term (1981-84) financial target.

The Group achieved all its performance aims, bar one.

Scottish Bus Group

1. Passenger journeys on all bus services in 1983 were 318.9m an increase of 1.4% over the previous year. (See Table A).

2. Within this total, stage passenger journeys increased by 1.7% the first such increase for over 30 years. In part this is accounted for by changes in agreements between the Bus Group and local authorities in Aberdeen and Fife. Notwithstanding the once-and-for-all element in the increase, the results for 1983 represent a slowing of the secular decline in stage patronage. The reasons for this include the more accurate matching of supply and demand following SCOTMAP, and the small



increase in 1983 in the average fare level (actually a decline in real terms). Other factors include the Bus Group's promotional campaigns and the increased reliability of services due in part to reduced turnover of drivers.

3. In 1983 non-stage services accounted for just over 12% of Bus Group fares revenue, a similar proportion to 1982. The 2 main revenue components in non-stage revenue are express and contracts; in 1983 for the first time revenue from express services exceeded that from contracts. The number of non-stage passenger journeys declined by just under 5% between 1982 and 1983. This decline masked different trends in the different non-stage sectors; demand for express services increased by just under 10%, and tours (the smallest sector of SBG's activities) by about 2½%. However the number carried on contracts and hires fell by just under 5% where the Bus Group was under-cut by competitors.

#### Revenue and Fares

4. Total fares revenue (including concessionary fare payments from local authorities) generated by the Scottish Bus Group was £134.4 million in 1983, an increase of just over 4% on the 1982 level. Of this £118 million came from stage carriage services. The average fare per passenger journey on stage carriage in 1983 was just over 1% higher than in the previous year. The average fare, therefore, fell in real terms in 1983 - the amount of any real fall varying from area to area dependent on negotiations with local authorities. Revenue from express services accounted for nearly £7 million in 1983, an increase of almost 7% on the previous year. The number of express passengers, however, increased at a greater rate and real fares on these services fell by 3½% between 1982 and 1983.

#### Support (See Table C)

5. In 1983 local authority revenue support was £5.1 million, 3.6% of revenue, and this was in line with the 1982 level. Concessionary fare payments from local authorities amounted to £20.05 million. In total, therefore, local authority payments to the Group amounted to £25.15 million, 18.5% of revenue.

6. Central Government support to SBG amounted to:-

£7.6 million as fuel duty rebate (an increase of £0.5 million over the 1982 level, in line with the increase in excise duty); and



£2.6 million in the form of new bus grant. Central Government support amounted to 7.6% of revenue.

### Supply

7. Although 0.4% of scheduled stage mileage was shed in 1983, overall miles in service increased by 1%. As with the increase in stage passengers (noted above) this was largely due to adjustments in Aberdeen and Fife. On express services 1983 saw a 3% increase in mileage. In contrast the overall mileage for contract services declined by 7%.

8. The SBG vehicle fleet fell by 157 in 1983. 211 vehicles were purchased. Of these, 114 were double-deck vehicles increasing that part of the fleet by 55 to 851.

9. Bus manpower declined by 21 in 1983 to a total of 9,252, a decline of 0.2%. This relatively small decline reflected the end of the period of significant reduction in platform staff following the 100% implementation of one person operation. Between 1979 and 1983 bus manpower has declined by 22%. (See Table B)

10. Labour costs per employee increased by 3.3% between 1982 and 1983, a reduction in real terms. Fuel costs rose by 5.6% in total, representing a marginal real increase. Maintenance costs increased by 6% which was the highest increase in SBG's cost structure. Even so this was only marginally above the rate of inflation and was largely due to the higher vehicle utilisation in 1983 than in the previous year. Units costs as a whole as measured by operating costs per vehicle mile, fell in real terms by 2.7% between 1982 and 1983 (compared with a real reduction between 1979 and 1983 of 7.6%). This real reduction in overall unit costs enabled the Bus Group to achieve the performance aim "to hold constant or reduce in real terms over the 5 years to 1984 total operating costs per vehicle mile in service".

11. Labour productivity as measured by vehicle miles per employee was 1.2% higher than in the previous year. Passenger journeys per employee also increased, pointing to the better matching of supply and demand following SCOTMAP. Vehicle utilisation also improved; vehicle miles per vehicle were 6% higher than in 1982. The Group did not meet the performance aim "to increase by 3% the number of passenger journeys per vehicle mile in-service". The Group dispute the validity of this performance aim. However, in 1983 the Group performance in this measure was the same as in 1982. (See Table D)



### Financial Target

12. The medium term financial target for the Scottish Bus Group was to make a return equivalent to a current cost operating profit, adjusted to take account of gains/losses arising on the disposal of vehicles and capital grants on an historic-cost basis, 4½% per annum on net fixed assets at current cost. In 1983 the pre-tax and interest profit was £6.2 million and net fixed assets were £129.5 million, a rate of return of 4.8%. Over the 4 years of the target, however, the Group's rate of return was, at 4.4%, slightly below target, attributable to a relatively poor performance in the first year (1980) of the target.



## CALEDONIAN MACBRAYNE (see Table E)

### Demand

13. Passengers carried on Caledonian MacBrayne vessels during 1983 increased by some 7½% over 1982. Car traffic increased by 8.7% over the same period. The number of commercial vehicles declined by 4.3%. The increased passenger and car numbers reflect a general upturn in tourism in Scotland in 1983 and also the good summer weather in that year compared with the previous year. In addition, as discussed below, there was a real decline in fares for these traffic flows. The level of commercial vehicle traffic was unaffected by the tourist factors.

### Revenue

14. CalMac's trading revenue was £12.85 million in 1983, 8.7% higher than in the previous year. In real terms this represented an increase of just over 3% on the previous year. In addition to this revenue, CalMac was in receipt of £6.65 million of revenue support from Central Government (an increase of just under 8% on the previous year). Total revenue exceeded total costs by £0.2 million. This represents a slight over-achievement of the company's financial target of breaking even after receipt of grant.

### Fares

15. Between 1982 and 1983 CalMac did not increase fares and tariffs. Average revenue for each flow of traffic shows some actual movement in fares. These reflect changes in the pattern of discounts available and a change in the mix of traffic between longer and shorter routes. Thus average passenger revenue increased by just over 3% between 1982 and 1983 a real decline of 2%. The average fare per car increased by just over 1%, producing a real decline of 4%. Commercial vehicles on the other hand experienced an increase of almost 5% in the average tariff per vehicle representing a real decline of under ½%. It is difficult to interpret the average commercial vehicle tariff in the absence of information about average vehicle lengths.

### Supply

16. CalMac's fleet size in 1983 was 29 vessels (as in 1982). Of this number, 12 were major vehicle ferries, 15 were small vehicle ferries and 2 passenger and cargo vessels.



17. There was a small increase in CalMac's manpower between 1982 and 1983 of 15 (2%). Staff numbers have fallen each year since 1979 prior to this increase. Part of the increase arose from the employment of extra shore staff, in response to the MMC's recommendation that measures should be taken urgently to improve revenue security. The largest part of the increase is related to crew recruitment because of extra manning required by revised service patterns.

18. CalMac's total costs (overhead as well as operational) increased by 7.6% in 1982 and 1983, being a real increase of just over 2%. This real increase arose despite the economies of operation which CalMac have continued to make and stemmed largely from the extra capital related charges of the new Arran vessel. The Company continued to achieve its single performance aim which relates to efficiency of delivery of service namely to hold constant or reduce in real terms the cost per ship capacity ton hour. Between 1982 and 1983 this measure fell by 0.4%; compared with 1979 levels a real reduction of 6.6% has been achieved.

19. In terms of quality of service CalMac continue to make progress in 1983. The Company increased the percentage of scheduled services completed on time achieving 98.3% and 97.9% for summer and winter sailings respectively. Likewise the percentage of scheduled services which it was unable to operate remained at the very low 1982 level (0.4%) for summer services and fell in respect of winter services from 1.9% to 0.7%.

20. Other efficiency initiatives taken by CalMac during 1983 included the introduction of a range of measures giving effect to the MMC recommendations. The Company's report on these changes was conveyed to Parliament in the Secretary of State's statements of July 1983 and 1984.

#### Other activities of Scottish Transport Group

21. Scottish Transport Investments Ltd generated a surplus of 14.5% on turnover of £7.6 million in 1983, compared with the financial target of 8%. It should be noted that in 1983 STI sold its subsidiary company, Dryburgh Abbey Hotel which had hitherto been a loss-maker. The principle contribution to profitability was made by MacBrayne Haulage Ltd whose turnover was £2.8 million producing a surplus of £0.2 million.



SCOTTISH TRANSPORT GROUP - FINANCIAL PERFORMANCE

22. The Scottish Transport Group's requirements for external finance during the fiscal years 1982/83 and 1983/84 were as follows:

	1982/83	<u>fm</u>	1983/84
Capital Grants	2.6		0.9
Revenue Support	13.2		9.8
NLF Borrowing	(8.3)		3.8
Outturn External Finance	7.5		14.5
EFL	19.5		18.3

23. The undershoot of EFL in 1982/83 was due largely to the Group's pessimistic forecasting of costs which led them to project a greater requirement for revenue support than proved to be the case. This pessimism, albeit much less pronounced, continued in 1983/84 when outturn external finance undershot the EFL by just under £4 million.

24. The Group undertook the following capital expenditure in 1983 (1982 figures in brackets):

	<u>fm</u>
Buses	11.5 (10.7)
Ships	5.4 (0.8)
Other	1.7 (1.1)
Total	18.6 (12.6)

This expenditure was financed mainly from internal resources and a loan from Ship Mortgage Financing Company.

25. The Group has been highly liquid for several years recently and held substantial short-term deposits in 1983. Amounting to £27 million, these have however, declined from their highest level in 1982 following early repayment of NLF loans. The Group now have only £0.8 million of CCD outstanding and should be free of government debt from 5 January 1985. The Group has recently taken out a deposit facility with the NLF.



## Conclusion

26. The Group's financial performance indicates continuing improvements in its operating particularly on bus services. In its major market, bus services, it should have a sound base to respond to increased competition for non-stage services and, as deregulation of stage services comes into effect, also to meet competition in that business. Marketing initiatives in the case of CalMac and the continuing attention to efficiency should help the company minimise loss making and/or keep fares increases to a low level. In the future the nature of STIL will change with the disposal of the road haulage company, MacBrayne Haulage.



## BUS SERVICES

TABLE A

	1981	1982	1983
<u>Demand and supply</u>			
Passenger journeys (m)	321.6	314.8	318.9
Vehicle miles (m)	123.6	121.6	122.8
Revenue (£m)	127.2	135.2	140.7
<u>Costs</u>			
Staff (£m)	75.4	78.7	81.1
operating expenditure (£m)	23.5	25.5	27.0
depreciation (£m)	9.7	10.2	10.5
Other (£m)	15.1	16.6	17.1
Total	<u>123.7</u>	<u>131.0</u>	<u>135.8</u>
Local authority support (£m)	7.9	4.9	5.1
Operating profit (£m)	4.9	5.6	6.2



## BUS SERVICES

TABLE B

Staff Productivity

Staff Numbers	1981	1982	1983
Platform	5211	5002	4996
Engineering	2857	2734	2743
Administrative	1623	1558	1534
Total	9691	9294	9273
Staff Costs (£m)	75.4	78.7	81.3
as % of total costs	68%	66%	60%
Vehicle miles per employee	12754	13084	13243
Staff costs per employee (£)	7780	8423	8746



## BUS SERVICES

## TABLE C

	1981	1982	1983
Non farebox revenue			
Local authority revenue support (£m)	7.9	4.9	5.1
As a % of revenue	6.2	3.6	3.6
Concessionary fare payments (£m)			20.5
As a % of			14.3
Fuel duty rebate (£m)	6.6	7.1	7.6
New bus grant (£m)	2.5	2.6	2.6



BUS SERVICES

TABLE D

Performance aims

	1980	1981	1982	1983
To hold constant or reduce in real terms over the 5 years to 1984 total operating costs per vehicle mile in service (Base 1979: 79.2)	78.1	74.8	75.2	73.2
To increase by 3% by 1984 the number of passenger journeys per vehicle mile in service (1980 = 100)	100	96	96	96
To reduce in 1980 the percentage of last milage % last milage	1.5	1.0	0.8	0.4



## SHIPPING SERVICES

TABLE E

	1981	1982	1983
Passenger carryings (000)	4077	4023	4322
Car traffic (000)	662	724	787
Commercial vehicles (000)	92	94	90
Revenues	17.5	17.6	19.2
Government Support	5.8	6.1	6.7
Total Costs (fm)	16.7	17.1	18.2
Staff Nos			
On Ship	502	492	502
Shore Terminal	148	151	152
Administrative	68	68	74
Total	718	711	726
Cost of ship capacity ton hour in real terms (Base 1979)	148.0	143.0	142.4



SCOTTISH TRANSPORT GROUP  
CORPORATE PLAN REVIEW, 1984-1988

This review discusses the Corporate Planning process within the Scottish Transport Group and proceeds to discuss the Plan for 1984-1988 as regards the principal subsidiaries of the Group, Scottish Bus Group and Caledonian MacBrayne.

Review of planning process

2. The Scottish Transport Group's Corporate Plan for the period 1984-88 is the first to be produced under new arrangements for the corporate planning process within the Group. Previously the planning round was co-ordinated by the Group's Secretary and Financial Director; this year it has been the responsibility of the newly created Director of Planning and Development.

New emphasis on market and operating company plans

3. The Director of Planning and Development is a new post charged not so much with producing an annual corporate plan for central Government consumption, but with developing the process of corporate planning itself within the Group. As a result the Plan this year can be seen more clearly than before as one part of a continuing planning process and the Plan itself describes the interactive process which it is hoped to develop between the Group at HQ and the subsidiary companies. Accordingly the Plan is not dirigiste; it attempts to contain the individual companies within essential guidelines but recognises that it is local managerial response which is critical for the Group's performance. While recognition of this is no new thing within the Group (or in the bus industry) the overt emphasis on this in the Plan is significant. Although much of the following discussion of the new corporate planning initiative relates principally to the bus business the new emphasis applies equally to Caledonian MacBrayne's shipping services.

4. An immediate departure of this year's Plan is to emphasise the market response. This welcome emphasis stems mainly from 2 factors, namely the recent experience with SCOTMAP and the increase in market discipline which deregulation of bus services will of necessity bring about. Accordingly the principal emphasis in the Corporate Plan, which we consider to be an accurate reflection of the planning process, is to give pride of place to efficient and effective delivery of service rather than simply to the supply side efficiency of providing services, the consumer value of which may be in doubt.

General quality of the new Corporate Plan

5. In spite of some obvious faults, which will be discussed below, there is much to be commended in the new style Plan. However the authors do not wish



"Corporate Plan 1984-1988" to be seen as a definitive work. They see it as the first fruit of a new initiative and are looking for improvements and changes in the next round. They acknowledge that certain things need to be improved and that discussion is required about the shape which the "mature" planning document should take.

#### General shortcomings of first Corporate Plan under the new arrangements

6. While, as has been noted, much is encouraging in this year's Corporate Plan there are elements which need improving or are actually deteriorations from the previous standard. In the latter respect the principal fault has been the removal of much of the financial data which previously served the Investment and Financing Review discussions. Financial data have been received separately from the Group but this separation has raised difficulties in particular as regards the status of the supply and demand figures for bus services in the Corporate Plan. The gap between costs and revenues in the Plan is not an accurate estimate of the net cost of operations or therefore of the requirement for revenue support. However these figures have been used for IFR purposes. In addition the Plan is deficient in operational statistics which do not provide enough historical figures against which to assess future assumptions. Although historical trends and statistical aggregates are not an absolute guide to possible future trends, they do serve as a yardstick against which to assess future projections and assumptions. Further, while the present Plan contains an improved treatment of sensitivities, the process needs to be developed in future so that the assumption of an alternative in one parameter can be accompanied with alteration in others. Finally the layout adopted for this year's Plan, jumping as it does between bus and ship operations, is disruptive to reading and it would be more sensible to discuss each industry fully in its own section.

#### Future development of the planning progress

7. It is the Director of Planning and Development's view that planning should move towards the development of strategic objectives for the Group which will be supported by separate company business plans. The strategic objectives need not require to be revised each year but should have validity over the medium term. To this end planning is being sold within the Group as an exercise in 2 year budgeting allowing the financial implications of certain assumptions to be examined closely while this will be useful for management purposes within the Group. This will present a certain difficulty for the Government in the IFR process since it will not allow the necessary detailed consideration of the latter 2 years of an IFR period. This matter will require further consideration with the Group.



8. The Plan alludes to deregulation although, obviously, it could not anticipate the detail of the Government's proposals. The publication of the White Paper on Buses should now allow the Group's strategy to become clearer in the coming year, although a degree of uncertainty on the future shape of the industry will persist for some time. Next year's Corporate Plan should therefore be able to give full treatment to its strategic objectives and set a more permanent baseline for future planning.

9. Given the articulation of strategic objectives, planning for the operating companies should, in the Group's view, consist of the necessary minimum of guidelines (essentially a constraint of financial target and the requirement to maximise passenger carrying) together with the stimulation of local company initiatives both in exploiting market opportunities and seeking cost savings. Although the subsidiaries have much in common there are many differences between them. This suggests that the application of a single yardstick of efficiency, in the form of general performance aims, to all of these companies is not necessarily appropriate or will produce the best results for the Group. "Locally appropriate figures" might be preferable. The detailed business plans for each company will have to be tailored to that individual company's starting position and trading environment so as to give realistic aims and objectives. A significant part of future planning activity will be devoted to the development of such locally appropriate figures and their method of reporting within the Group and between the Group and Government. This issue is discussed further below in the consideration of performance aims.

10. Within this framework of strategic objectives and central guidelines on the planning process, it is the intention of the Group planning directorate to use the planning process to stimulate subsidiary company management thinking, particularly on costs. This will be done by requiring subsidiary companies to develop a number of strategies to cope with a range of varying assumptions presented by the Group. This process should enable the Group to have a range of possible action strategies to cope with a range of outcomes and in which the demands of local companies circumstances have been taken fully into account. The final plan will thus be able to present a range of options and alternatives at the aggregate level.

#### Corporate Plan - Group and Government requirements

11. The discussion in the previous paragraphs suggests that the Group and Government requirements are not necessarily the same. The setting and monitoring of aims



for the operating companies is essentially a matter for the Group. There is a limit on how much company detail can, or should, be incorporated in the Corporate Plan. However some of the flavour of company response and initiative will require to be included in the Plan in order to show to the Government that business plans and the Group control are functioning satisfactorily. For the most part however the Corporate Plan will present aggregate company material to produce Group results.



BUSINESS STRATEGY

1. The Group's strategy is to adopt a market oriented approach to:-  
maximise profitable penetration of developing markets, eg express services  
contain losses in declining markets, eg journeys to work services  
maximise the contribution to be made by the marginal use of resources.

The plan stresses the importance of increased productivity, careful pricing and the retention of cross subsidy and the recognition of social objectives as the major elements in the Group's response to the strategy.

2. The strategy is developed through an analysis of the stage and non-stage market. The stage market will continue to dominate the business although it will continue to be subject to secular decline. The Plan sees opportunities in the urban and inter-urban travel market; in maximising the revenue earned from off peak trade; and more profitable trading-off with education and contract work. The plan also suggests that the Group might develop "value for money" services for specific social purposes or develop policies to benefit specific social groups. The plan identifies price as being the most important attribute in these markets but recognises the contribution of convenience of service and quality. This strategy is to be further developed and co-ordinated through the Marketing Strategy which is in the course of completion. The subsidiary companies will concentrate on market action in offsetting the decline in stage demand in order to help meet the financial objectives. The Plan however does not develop any analysis of these opportunities and their economic potential. The management of the subsidiary companies are encouraged to "take risks" and develop the opportunities which the Plan identifies.

3. Against that business strategy the Plan then examines demand and supply.

As has been noted already in this analysis a major methodological inconsistency is apparent.

DEMAND

4. The Plan proceeds on the assumption that demand for stage carriage services will decline by 1% per annum over the Plan period. This is a relatively pessimistic assumption and is not the summation of the subsidiary companies' expectations and predictions which it is understood were somewhat more buoyant. The aggregates are figures centrally determined by the Director of Planning in the light of previous trends and a general assessment of the future.



The pessimism of the projections on patronage is compounded in respect of revenue since the Plan proceeds on an implicit assumption of decline in real fares.

Although the Plan only states explicitly that fares will not increase faster than inflation, closer scrutiny of the figures reveal the hidden assumption that real fares will fall by 4% over the plan period.

6. In contrast to the deliberate suppression of the demand side figure by central decision within the Group Management, the supply side is kept high. The cost figures in the Plan follow from the submission of individual company's expectations and do not reflect the consequences of any managerial initiatives to contain costs or any control assumption of the necessary cost savings being achieved. This shortcoming can be illustrated with reference either to staff levels or fleet numbers. A minor staff reduction is projected over the Plan period with almost all reductions being achieved between 1983 and 1984. When these projected staff levels are related to the projected number of passenger journeys, it is found that whereas 32.9 passengers were catered for by each staff member in 1983, only 31.6 passengers are so catered in 1988. This represents a decline of 4%; between 1979-83 on the other hand there had been an increase of 15% in this measure. While the improvement between 1979-83 reflects the once-for-all gains from the transition to one person operation, a deterioration in the coming years could hardly be defensible and would suggest a slide back to overmanning. A similar conclusion is reached on examination of fleet numbers. Whereas staff per bus fell between 1979-83 by 6.5%, the plan projects that this will rise by 2% between 1983 and 88.

7. On the face of it therefore SBG, after a good record on productivity in recent years, appears to be heading towards inefficiency at the same time as it declares the overriding importance of market orientation and improved competitiveness.

### Efficiency

8. Given the basic requirement of achieving financial target at the level assumed in the Plan on the basis of the projection of future demand, the need for cost savings from company response is revealed by the discrepancy between the supply and demand figures. The projected performance against the target is discussed at paragraph 12 below. However the Plan does not provide much indication of where the necessary savings can be made in future years. Staff costs are the largest item in the cost structure comprising about 60% of total costs and this will be the key area, particularly non-platform staff. The Plan does reveal that



policies are being developed within the companies to contain staff costs. Clearly future plans will need to report on the extent to which these policies have been developed and how successful they have proved. Outside staff costs the scope for other savings in unit costs should lie in the improvement of the monitoring of vehicle scheduling to secure the continued improvement of operational matching of supply and demand. It is also noted that a number of VFM audits are underway which may also identify areas for savings.

### Vehicles

9. Vehicles as a supply side factor are treated in the Plan in a similar fashion to other cost elements. Estimates for the years after 1984 show little change falling by only 4 or 5 vehicles per annum from the 1983 level of just over 3,000. This is not in line with the projected passenger demand. As with other factors of production, expenditure on new vehicles must be tailored to market constraints and the requirements of target. This may imply that the requirement for investment in buses should not be as high as shown in the Plan. If the Plan figures have been overestimated this will of course have consequences for the IFR. However it may be that the replacement of only life-expired buses would perpetuate a hump of investment in a few years time and earlier replacement than strict age requirement would smooth out this future hump and lead to improvements in capital productivity. In addition adequate new investment will be essential to allow the Group to respond competitively in line with the market orientation stressed in the Plan. In future therefore the corporate Plan should discuss more rigorously why a particular level of investment is required and should explore the impact of a different level both in operational and financial terms.

10. The Plan informs us that studies of whole-life vehicle costs are being carried out to optimise the vehicle replacement programme. This is welcome and future plans should report on the progress in this. This will provide any necessary information for the discussion referred to above. It will be for consideration how this study should be reported and presented in the Plan and it may be appropriate that the study should be included as an appendix.

### Non Stage Market

11. The Plan gives fuller consideration to the non-stage sectors of the bus market than previously. Together the non stage markets account for just over 12% of total bus traffic revenue earned by SBG. In the assessment of the problems and opportunities in the sectors price in all cases is seen as the key factor. In what must be seen as an important statement of the future non-stage strategy the Plan reveals that each such activity will be treated as a separate profit



centre with the objective of maximising contribution to overheads. To this end the Plan puts forward targets for each sector which will be required to return increased contributions to the Group. Market plans will aid this process.

#### Financial Target

12. The Plan assumes for the plan period a target of broadly the same magnitude as set in 1984. This is estimated in projections to be £6m, that this is above the present money value of the target is explained by the fact that the Group will repay all the outstanding balance of capital loans to the Government during 1984. The Plan projects that target will be met in 1984. However this is dependent on a significant increase in local authority revenue support over the 1983 level. This is consistent with the approach adopted in the Plan to reduce progressively cross subsidy. For the years beyond 1984 the Plan projects a deteriorating performance against targets. The principle reason for this is the reduction of cross-subsidy by some £4m in the Plan period which is directly equivalent to the amount of the projected undershoot of target in 1988. Elimination of this amount of cross-subsidy will allow fares on the profitable routes to be reduced by an equivalent amount so that, notwithstanding higher revenue support from local authorities, revenue will be depressed in direct proportion to the reduction in fares (unless demand is significantly stimulated). This analysis allows SBG in the Plan to identify the extent of savings required by 1988 in order to meet the target if increased revenue support is applied only to reductions in cross-subsidy.

13. The future level of financial target and the Group's policy on cross-subsidy receives initial discussion in this Plan. As further discussion of the consequences of deregulation proceed and the Group devise a strategy to cope with the new operating environment, these issues will have to be examined more closely. Although the Plan assumes that some measure of deregulation <sup>will</sup> take place, and the increased market orientation is in line with this, the present plan preceded the publication of the White Paper.

14. An immediate priority will be to fix the level of target for 1985 and beyond. It might be argued that following deregulation SBG while being subject to the full rigours of the market place will be required to take due account of the opportunity cost of capital and that therefore a formal financial target will be unnecessary. However this ignores the fact that SBG will have to avoid, and be seen to be avoiding, a policy of predatory pricing designed to stifle competition and reassert monopoly.



Whatever the general level of target decided upon, consideration will have to be given to the degree of flexibility which may be permissible in achieving a target over a medium term period. If the target permitted no flexibility between one year and another SBG might find that market unreasonably eroded by a new entrant who might, for an initial period, be prepared to accept negative rate of return on his capital. Excessive flexibility for SBG might on the other hand lead to the risk of predation just as if there were no target at all.

#### Performance Aims

15. The present performance aims require to be re-assessed and the Plan sets a framework for this within the context of the planning process of relevance to the Group.

It is envisaged that the Group will develop locally appropriate measures of efficiency which are able to take account of the local circumstances of the individual companies. As far as the Government are concerned it will continue to be necessary to satisfy ourselves that the Group are behaving efficiently, although it might be argued that in the deregulated environment the satisfactory meeting of market demand implies that this is being done. A development of aggregate measures of efficiency is therefore a further subject to be discussed with the Group.

#### Sensitivity

16. The Plan examines the implications to the Group of variation in the central assumptions on revenue support, concessionary payments, unit costs, stage demand and non-stage demand. However these do not directly involve a consideration of strategic action to cope with the lack of consequences. Instead 4 other options for contingency action are mentioned but no detailed consideration of each is given.



CALEDONIAN MACERAYNE  
REVIEW OF CORPORATE PLAN

1. The present corporate plan treatment of Caledonian MacBrayne is an improvement on that of its predecessor. Nevertheless there are substantial areas of weakness in the discussion and comprehension of what is said about Cal Mac in the corporate plan is made more difficult by the fact that it is interspersed between material bearing principally on the Scottish Bus Group. It should help the authors of the corporate plan for Cal Mac's interests if the text is unified; it will certainly be a help to the reader.

Demand

2. In keeping with the tone of the corporate plan as a whole greater attention is given to considering the demand side in Cal Mac services than previously. In particular, the qualitative factors considered on pages 19 and 20 are a useful beginning. They focus attention on areas where the company might best take initiative. The corporate plan might also reasonably report on the results of the greater promotional activity undertaken by the company of late and assess, albeit tentatively at this stage, the results of that activity.
3. As yet however, the corporate planning process in Cal Mac has not made great progress in evaluating demand factors such as those summarised on page 19 and in relating these to a forward assessment of traffic against the historic trends of patronage for their services. Thus, the summary discussion of the development of tourism is inadequate. Discussion of this could be extended and could be linked to the known fact of volatility of patronage on Cal Mac's services which, in turn, may advise on adopting a range of possible assumptions on future traffic. The forecasts of traffic which the corporate plan presents on page 22 are given very little justification. A more adequate presentation of figures in the past within the text of the plan would help towards establishing upper, lower and medium assumptions on projected demand. Such sensitivity and consideration in the case of Cal Mac is probably more significant even than in the case of the Group's bus activities.

Fares

4. The assumption that real fares will continue to fall requires a discussion in the plan. There is not necessarily a continuing Government commitment to reducing the real cost of travel. The company, in addition, is aware that the need



to achieve a more equitable distribution of fares between routes (as recommended by the MMC and as agreed to by the company) is not altogether consistent with the assumption that there will be a drop of fares in real terms. The plan should also consider what the past record has been on average fares and tariffs for the 3 main flows of traffic. Such past analysis could be linked to future projections to provide a demonstration of what fares package could be produced under a given set of cost assumptions, for different levels of patronage and by the granting of different levels of revenue support from central Government.

5. The plan says that there are specific plans to promote off-peak pricing to help spread peaks and generate new off-peak demand. Certain off-peak discounts are already in force and as from the beginning of 1984 certain discounts have been discontinued at peak weekends, but the plan should discuss more fully what particular initiatives the company have in mind in this matter. (Also at page 21, near top of the page, the plan says that it is the company's market strategy to "increase total business within existing resources". This is no real plan of action and it is not clear if it says anything in addition to those statements about promotion of the network in other parts of the plan.)

#### Cal Map Studies

6. The plan usefully notes the dates when the Cal Map studies should be complete. It is appreciated that a range of initiatives must, indeed, await the completion of a sufficient number of these reports. The next corporate plan should present, possibly as a one-off appendix, a full discussion of the findings and conclusions of these reports and of the range of possible actions which may be taken as a result. The Plan's discussion could usefully have been linked to the worthwhile savings which have already been achieved from certain of the Cal Map studies - referred to in the appendices which deal with the draft response to the MMC report.

#### Supply

7. The plan considers the supply side of the operations in 2 main parts; the first is a presentation, of what are described as "market strengths and weaknesses"; and the second being a presentation of future staff numbers and operating expenditure.
8. The former consideration identifies 3 supply-side weaknesses:- excessive peak ratio, high standing cost of vessels and high cost of additional sailings.



Given the identification of these weaknesses the plan should discuss the scope for action. Such discussion would be in the particular context of the recommendation of the Monopolies and Measures Commission Report that the company should have a positive plan of cost reductions. It may be said, also, that these supply-side weaknesses are also presented as demand-side strengths - eg as "spare off-peak capacity". The plan needs to reconcile these 2 opposites and to distinguish between short and long run aspects.

9. The analysis of the increase in operating expenditure over the 5 year period 1983-88 call for fuller description than is given in the text. Quite apart from the need for better presentation of data within the text - eg relating traffic to revenue and revenue to expenditure and showing each of the individual years in the 5 year period - the scale of increases in expenditure in real terms is very large and needs to be fully examined. Thus the real increase in ship operating costs between 1983 and 1988 is shown as 11.4% and administrative/central services costs are shown as increasing by 30.8% in the same period. While it is understood, in general, that these increases are associated with the capital charges of new vessels (both in terms of depreciation and interest charges) more detail needs to be presented and the implications for future costs of different replacement timings for vessels needs to be examined.

#### Investment

10. The plan envisages a period of substantial investment in both ships and terminals. The corporate plan may not be the appropriate place within which to examine the justification for this investment in full and there is, as occasion requires, close discussion between company and Department when major investments are sought. Nevertheless the plan is deficient in not setting forth a statement of the service level and disposition proposed for future years for which the new facilities and vessels would be required. For example while many of the elderly pier structures do undoubtedly require substantial investment, it may be possible in the case of others to restructure services in such a way as obviate the need for some or all of expenditure otherwise required.
11. In the case of vessels the plan also fails to give justification for a full one-for-one replacement of major vessels. Some discussion of this is required. By the time of the next edition of the plan, however, results should be forthcoming from a study commissioned by the Scottish Development Department (on which Caledonian MacBrayne are represented) which should provide a basis for discussion of the



future services in one of the company's operating areas (the Oban area) where it is expected that the company's next 2 major vessel replacements will be required.

12. In the case of the minor vessels, it is necessary as the plan reports, for advice to be sought on the configuration of such new vessels as may be required. But the plan should also give consideration to the need for and the use of such craft and formulate the structure of services which they may operate in the future. Only in this way can the requisite number and disposition of vessels be established and the case for a sufficient level of investment proven.

### Financial Target

13. The company has operated in recent years under the financial target of breaking even after receipt of central Government grant. The plan assumes this target will continue, and this is not unreasonable. However because of the high increase in costs in the forecast period and because of the plan's implicit assumption of a very large decline in fares in real terms, the plan assumes that a very large increase in Government support will be forthcoming over the years. Thus, at page 40, the plan envisages that revenue support would increase from £6.7m in 1983 to £10.6m in 1988 at constant prices. This means a real increase of 58% over the 5 year period. This is an unrealistic expectation and this would have been clear within the plan had historical figures on the same price basis been shown along side. It should also be noted that this increase in real terms would probably have to be even greater, given the probably optimistic assumptions in the plan about future traffic demand. Once again, the absence of alternatives for demand, fares and costs means that no real light is shed upon the future financial conduct of the company or gives guidance as to feasible options.

### Efficiency

14. Cal Mac were set a performance aim in 1981 designed to measure unit costs. This was to "hold constant or reduce in real terms cost per ship capacity-ton Hour". The company has met this aim each year since 1981. The plan does not, however, discuss this performance aim. It is probable in the coming years, with the increased costs which the plan presents, that progress with this aim may not continue. The plan should also discuss possible measures of efficiency and, as discussed in the performance review, certain other measures are available to the company for, eg, discussion of quality of service - and the adoption of efficiency aims is a necessary follow up to the MMC's recommendation



that there should be an active policy of cost cutting initiative.

Conclusion

15. The current plan for Cal Mac is an improvement on the previous exercises; it is still a very long way short of what would be adequate. To some extent the company's report on its activities and of progress made is contained in the appendix which relates the response to the MMC's report. But such initiatives as have already been taken in response to that report will have to be sustained in the future and the company will have to develop and monitor measures that sustain these initiatives.
16. The specific limitations of the present Plan which have been identified in this review cover the analysis of the levels of service which can be provided and the consequent financial implications. The Plan should make an accurate projection of the requirements for revenue support. This should be supported by analysis of the pattern of costs including options for fare levels and consequent forecast revenue.



10 JAN 1985

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The Rt Hon Peter Rees QC MP  
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DR

20. December 1984

21/12

Dear Chief Secretary,

SCOTTISH TRANSPORT GROUP: PERFORMANCE REVIEW AND CORPORATE PLAN REVIEW

I enclose copies of Reviews of STG's performance for 1983 and of their latest Corporate Plan for 1984-89.

The Group's performance in 1983 has been generally satisfactory. On the bus side the Group halted the long-term decline in stage service patronage. The financial target for the Bus Group was achieved as were all but one of its performance aims.

On the shipping side passenger and car traffic increased, as did revenue. The company has responded positively to the recommendations of the Monopolies and Mergers Commission, as I reported to Parliament in July and as a result efficiency has improved. I am looking for this trend to continue. Overall, however, the company's total costs in the years ahead will increase as a result of new investment. The company achieved its financial target - to break even after Government support.

As a whole the Scottish Transport Group returned a pre-tax profit of £9.7m in 1983, compared with £9.4m in the previous year. The Group's requirement for external finance undershot the EFL in both the fiscal years 1982-83 and 1983-84 during which period the Group also became effectively free of Government debt.

This year's Corporate Plan is the first of a new style of planning document following reorganisation within the Group. I think that there is much to congratulate the Group upon in this plan, particularly the market orientation which it adopts and the recognition that the plan is part of a continuous inter-action between the individual operating bus companies and the Group and also between the Group and Government. There is however a major inconsistency in the



bus side of the plan where the demand expectations of operating bus companies have been constrained without corresponding action on the supply side. As a result, the plan shows (unjustified) projections of poor productivity and poor profit performance. This has now been discussed with the Group and I am content that the next plan will offer further improvement.

The plan was prepared before publication of the Buses White Paper. Although it looks forward to some form of deregulation it was unable to deal with the issue head on. These policy developments will be the major influence on the evolution of the Group's strategy and planning, and is bound for the moment to give rise to a degree of uncertainty. We have nevertheless to produce a new financial target for the Bus Group for 1985 and beyond, and I hope to write to you about this shortly.

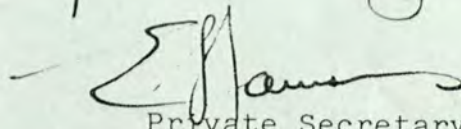
The Bus Group's performance aims also require reconsideration. The Corporate Plan contains some discussion of performance aims and points to attempts by the Group to develop its own measures of performance which can be applied to individual operating companies and take account of local circumstances. This is a very worthwhile development given that the central aim for the Group is to satisfy the market requirements within the necessary frame of financial discipline set by Government. My officials are at present considering how such measures as the Group are developing for the Group's monitoring of the company performance might be developed.

As regards Caledonian MacBrayne the plan, although an improvement on previous efforts, is still deficient in certain respects and the Group have been told so. I look to future plans to reveal more thinking about alternative patterns of service in order to inform decisions about reinvestment; and I look to further improvements following the MMC report.

We expect, as you know, to dispose of the Group's road haulage company, MacBrayne Haulage, in the course of the present financial year. Once that is underway I shall ask my officials to examine with the Group what the continuing role is for the subsidiary, the Scottish Transport Investments Ltd, given that MacBrayne Haulage is by far the largest training component of that subsidiary.

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

Yours sincerely



Private Secretary

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



## SCOTTISH TRANSPORT GROUP - PERFORMANCE REVIEW 1983

Introduction

The Scottish Transport Group was formed on 1 January 1969 as a public authority under the Transport Act 1968. The 3 principal subsidiaries of the Group are the Scottish Bus Group (SBG), Caledonian MacBrayne (CalMac) and Scottish Transport Investments Ltd (STIL).

SBG is the largest single provider of bus services in Scotland. It has 7 operating subsidiaries whose principal business is local stage carriage services. The subsidiaries also, to differing degrees, operate express services, private contract and hire and tours.

CalMac operates sea transport services on the Clyde Estuary and on the west coast of Scotland.

STIL provides a variety of complementary and ancillary activities including management services, road haulage, travel and tourism, and insurance.

Summary of 1983 Performance for STG as a whole

Traffic on all operations increased on the 1982 level.

Pre-tax profits increased slightly over 1982.

The Group operated within its EFL (ie 1983/84).

The Group met its medium term (1981-84) financial target.

The Group achieved all its performance aims, bar one.

Scottish Bus Group

1. Passenger journeys on all bus services in 1983 were 318.9m an increase of 1.4% over the previous year. (See Table A).

2. Within this total, stage passenger journeys increased by 1.7% the first such increase for over 30 years. In part this is accounted for by changes in agreements between the Bus Group and local authorities in Aberdeen and Fife. Notwithstanding the once-and-for-all element in the increase, the results for 1983 represent a slowing of the secular decline in stage patronage. The reasons for this include the more accurate matching of supply and demand following SCOTMAP, and the small



increase in 1983 in the average fare level (actually a decline in real terms). Other factors include the Bus Group's promotional campaigns and the increased reliability of services due in part to reduced turnover of drivers.

3. In 1983 non-stage services accounted for just over 12% of Bus Group fares revenue, a similar proportion to 1982. The 2 main revenue components in non-stage revenue are express and contracts; in 1983 for the first time revenue from express services exceeded that from contracts. The number of non-stage passenger journeys declined by just under 5% between 1982 and 1983. This decline masked different trends in the different non-stage sectors; demand for express services increased by just under 10%, and tours (the smallest sector of SBG's activities) by about 2½%. However the number carried on contracts and hires fell by just under 5% where the Bus Group was under-cut by competitors.

#### Revenue and Fares

4. Total fares revenue (including concessionary fare payments from local authorities) generated by the Scottish Bus Group was £134.4 million in 1983, an increase of just over 4% on the 1982 level. Of this £118 million came from stage carriage services. The average fare per passenger journey on stage carriage in 1983 was just over 1% higher than in the previous year. The average fare, therefore, fell in real terms in 1983 - the amount of any real fall varying from area to area dependent on negotiations with local authorities. Revenue from express services accounted for nearly £7 million in 1983, an increase of almost 7% on the previous year. The number of express passengers, however, increased at a greater rate and real fares on these services fell by 3½% between 1982 and 1983.

#### Support (See Table C)

5. In 1983 local authority revenue support was £5.1 million, 3.6% of revenue, and this was in line with the 1982 level. Concessionary fare payments from local authorities amounted to £20.05 million. In total, therefore, local authority payments to the Group amounted to £25.15 million, 18.5% of revenue.

6. Central Government support to SBG amounted to:-

£7.6 million as fuel duty rebate (an increase of £0.5 million over the 1982 level, in line with the increase in excise duty); and



£2.6 million in the form of new bus grant. Central Government support amounted to 7.6% of revenue.

### Supply

7. Although 0.4% of scheduled stage mileage was shed in 1983, overall miles in service increased by 1%. As with the increase in stage passengers (noted above) this was largely due to adjustments in Aberdeen and Fife. On express services 1983 saw a 3% increase in mileage. In contrast the overall mileage for contract services declined by 7%.

8. The SBG vehicle fleet fell by 157 in 1983. 211 vehicles were purchased. Of these, 114 were double-deck vehicles increasing that part of the fleet by 55 to 851.

9. Bus manpower declined by 21 in 1983 to a total of 9,252, a decline of 0.2%. This relatively small decline reflected the end of the period of significant reduction in platform staff following the 100% implementation of one person operation. Between 1979 and 1983 bus manpower has declined by 22%. (See Table B)

10. Labour costs per employee increased by 3.3% between 1982 and 1983, a reduction in real terms. Fuel costs rose by 5.6% in total, representing a marginal real increase. Maintenance costs increased by 6% which was the highest increase in SBG's cost structure. Even so this was only marginally above the rate of inflation and was largely due to the higher vehicle utilisation in 1983 than in the previous year. Units costs as a whole as measured by operating costs per vehicle mile, fell in real terms by 2.7% between 1982 and 1983 (compared with a real reduction between 1979 and 1983 of 7.6%). This real reduction in overall unit costs enabled the Bus Group to achieve the performance aim "to hold constant or reduce in real terms over the 5 years to 1984 total operating costs per vehicle mile in service".

11. Labour productivity as measured by vehicle miles per employee was 1.2% higher than in the previous year. Passenger journeys per employee also increased, pointing to the better matching of supply and demand following SCOTMAP. Vehicle utilisation also improved; vehicle miles per vehicle were 6% higher than in 1982. The Group did not meet the performance aim "to increase by 3% the number of passenger journeys per vehicle mile in-service". The Group dispute the validity of this performance aim. However, in 1983 the Group performance in this measure was the same as in 1982. (See Table D)



## Financial Target

12. The medium term financial target for the Scottish Bus Group was to make a return equivalent to a current cost operating profit, adjusted to take account of gains/losses arising on the disposal of vehicles and capital grants on an historic cost basis,  $4\frac{1}{2}\%$  per annum on net fixed assets at current cost. In 1983 the pre-tax and interest profit was £6.2 million and net fixed assets were £129.5 million, a rate of return of 4.8%. Over the 4 years of the target, however, the Group's rate of return was, at 4.4%, slightly below target, attributable to a relatively poor performance in the first year (1980) of the target.



SCOTTISH TRANSPORT GROUP - FINANCIAL PERFORMANCE

22. The Scottish Transport Group's requirements for external finance during the fiscal years 1982/83 and 1983/84 were as follows:

	1982/83	<u>£m</u>	1983/84
Capital Grants	2.6		0.9
Revenue Support	13.2		9.8
NLF Borrowing	(8.3)		3.8
Outturn External Finance	7.5		14.5
EFL	19.5		18.3

23. The undershoot of EFL in 1982/83 was due largely to the Group's pessimistic forecasting of costs which led them to project a greater requirement for revenue support than proved to be the case. This pessimism, albeit much less pronounced, continued in 1983/84 when outturn external finance undershot the EFL by just under £4 million.

24. The Group undertook the following capital expenditure in 1983 (1982 figures in brackets):

	<u>£m</u>
Buses	11.5 (10.7)
Ships	5.4 (0.8)
Other	1.7 (1.1)
Total	18.6 (12.6)

This expenditure was financed mainly from internal resources and a loan from Ship Mortgage Financing Company.

25. The Group has been highly liquid for several years recently and held substantial short-term deposits in 1983. Amounting to £27 million, these have however, declined from their highest level in 1982 following early repayment of NLF loans. The Group now have only £0.8 million of CCD outstanding and should be free of government debt from 5 January 1985. The Group has recently taken out a deposit facility with the NLF.



Conclusion

26. The Group's financial performance indicates continuing improvements in its operating particularly on bus services. In its major market, bus services, it should have a sound base to respond to increased competition for non-stage services and, as deregulation of stage services comes into effect, also to meet competition in that business. Marketing initiatives in the case of CalMac and the continuing attention to efficiency should help the company minimise loss making and/or keep fares increases to a low level. In the future the nature of STIL will change with the disposal of the road haulage company, MacBrayne Haulage.



## BUS SERVICES

TABLE A

	1981	1982	1983
<u>Demand and supply</u>			
Passenger journeys (m)	321.6	314.8	318.9
Vehicle miles (m)	123.6	121.6	122.8
Revenue (£m)	127.2	135.2	140.7
Costs			
Staff (£m)	75.4	78.7	81.1
operating expenditure (£m)	23.5	25.5	27.0
depreciation (£m)	9.7	10.2	10.5
Other (£m)	15.1	16.6	17.1
Total	<u>123.7</u>	<u>131.0</u>	<u>135.8</u>
Local authority support (£m)	7.9	4.9	5.1
Operating profit (£m)	4.9	5.6	6.2



Staff Productivity

Staff Numbers	1981	1982	1983
Platform	5211	5002	4996
Engineering	2857	2734	2743
Administrative	1623	1558	1534
Total	9691	9294	9273
Staff Costs (£m)	75.4	78.7	81.3
as % of total costs	68%	66%	60%
Vehicle miles per employee	12754	13084	13243
Staff costs per employee (£)	7780	8423	8746



## BUS SERVICES

## TABLE C

Non farebox revenue	1981	1982	1983
Local authority revenue support (£m)	7.9	4.9	5.1
As a % of revenue	6.2	3.6	3.6
Concessionary fare payments (£m)			20.5
As a % of			14.3
Fuel duty rebate (£m)	6.6	7.1	7.6
New bus grant (£m)	2.5	2.6	2.6



Performance aims

	1980	1981	1982	1983
To hold constant or reduce in real terms over the 5 years to 1984 total operating costs per vehicle mile in service (Base 1979: 79.2)	78.1	74.8	75.2	73.2
To increase by 3% by 1984 the number of passenger journeys per vehicle mile in service (1980 = 100)	100	96	96	96
To reduce in 1980 the percentage of last milage % last milage	1.5	1.0	0.8	0.4



## SHIPPING SERVICES

TABLE E

	1981	1982	1983
Passenger carryings (000)	4077	4023	4322
Car traffic (000)	662	724	787
Commercial vehicles (000)	92	94	90
Revenues	17.5	17.6	19.2
Government Support	5.8	6.1	6.7
Total Costs (£m)	16.7	17.1	18.2
Staff Nos			
On Ship	502	492	502
Shore Terminal	148	151	152
Administrative	68	68	74
Total	718	711	726
Cost of ship capacity ton hour in real terms (Base 1979)	148.0	143.0	142.4



SCOTTISH TRANSPORT GROUP  
CORPORATE PLAN REVIEW, 1984-1988

This review discusses the Corporate Planning process within the Scottish Transport Group and proceeds to discuss the Plan for 1984-1988 as regards the principal subsidiaries of the Group, Scottish Bus Group and Caledonian MacBrayne.

Review of planning process

2. The Scottish Transport Group's Corporate Plan for the period 1984-88 is the first to be produced under new arrangements for the corporate planning process within the Group. Previously the planning round was co-ordinated by the Group's Secretary and Financial Director; this year it has been the responsibility of the newly created Director of Planning and Development.

New emphasis on market and operating company plans

3. The Director of Planning and Development is a new post charged not so much with producing an annual corporate plan for central Government consumption, but with developing the process of corporate planning itself within the Group. As a result the Plan this year can be seen more clearly than before as one part of a continuing planning process and the Plan itself describes the interactive process which it is hoped to develop between the Group at HQ and the subsidiary companies. Accordingly the Plan is not dirigiste; it attempts to contain the individual companies within essential guidelines but recognises that it is local managerial response which is critical for the Group's performance. While recognition of this is no new thing within the Group (or in the bus industry) the overt emphasis on this in the Plan is significant. Although much of the following discussion of the new corporate planning initiative relates principally to the bus business the new emphasis applies equally to Caledonian MacBrayne's shipping services.

4. An immediate departure of this year's Plan is to emphasise the market response. This welcome emphasis stems mainly from 2 factors, namely the recent experience with SCOTMAP and the increase in market discipline which deregulation of bus services will of necessity bring about. Accordingly the principal emphasis in the Corporate Plan, which we consider to be an accurate reflection of the planning process, is to give pride of place to efficient and effective delivery of service rather than simply to the supply side efficiency of providing services, the consumer value of which may be in doubt.

General quality of the new Corporate Plan

5. In spite of some obvious faults, which will be discussed below, there is much to be commended in the new-style Plan. However the authors do not wish



"Corporate Plan 1984-1988" to be seen as a definitive work. They see it as the first fruit of a new initiative and are looking for improvements and changes in the next round. They acknowledge that certain things need to be improved and that discussion is required about the shape which the "mature" planning document should take.

#### General shortcomings of first Corporate Plan under the new arrangements

6. While, as has been noted, much is encouraging in this year's Corporate Plan there are elements which need improving or are actually deteriorations from the previous standard. In the latter respect the principal fault has been the removal of much of the financial data which previously served the Investment and Financing Review discussions. Financial data have been received separately from the Group but this separation has raised difficulties in particular as regards the status of the supply and demand figures for bus services in the Corporate Plan. The gap between costs and revenues in the Plan is not an accurate estimate of the net cost of operations or therefore of the requirement for revenue support. However these figures have been used for IFR purposes. In addition the Plan is deficient in operational statistics which do not provide enough historical figures against which to assess future assumptions. Although historical trends and statistical aggregates are not an absolute guide to possible future trends, they do serve as a yardstick against which to assess future projections and assumptions. Further, while the present Plan contains an improved treatment of sensitivities, the process needs to be developed in future so that the assumption of an alternative in one parameter can be accompanied with alteration in others. Finally the layout adopted for this year's Plan, jumping as it does between bus and ship operations, is disruptive to reading and it would be more sensible to discuss each industry fully in its own section.

#### Future development of the planning progress

7. It is the Director of Planning and Development's view that planning should move towards the development of strategic objectives for the Group which will be supported by separate company business plans. The strategic objectives need not require to be revised each year but should have validity over the medium term. To this end planning is being sold within the Group as an exercise in 2 year budgeting allowing the financial implications of certain assumptions to be examined closely while this will be useful for management purposes within the Group. This will present a certain difficulty for the Government in the IFR process since it will not allow the necessary detailed consideration of the latter 2 years of an IFR period. This matter will require further consideration with the Group.



8. The Plan alludes to deregulation although, obviously, it could not anticipate the detail of the Government's proposals. The publication of the White Paper on Buses should now allow the Group's strategy to become clearer in the coming year, although a degree of uncertainty on the future shape of the industry will persist for some time. Next year's Corporate Plan should therefore be able to give full treatment to its strategic objectives and set a more permanent baseline for future planning.

9. Given the articulation of strategic objectives, planning for the operating companies should, in the Group's view, consist of the necessary minimum of guidelines (essentially a constraint of financial target and the requirement to maximise passenger carrying) together with the stimulation of local company initiatives both in exploiting market opportunities and seeking cost savings. Although the subsidiaries have much in common there are many differences between them. This suggests that the application of a single yardstick of efficiency, in the form of general performance aims, to all of these companies is not necessarily appropriate or will produce the best results for the Group. "Locally appropriate figures" might be preferable. The detailed business plans for each company will have to be tailored to that individual company's starting position and trading environment so as to give realistic aims and objectives. A significant part of future planning activity will be devoted to the development of such locally appropriate figures and their method of reporting within the Group and between the Group and Government. This issue is discussed further below in the consideration of performance aims.

10. Within this framework of strategic objectives and central guidelines on the planning process, it is the intention of the Group planning directorate to use the planning process to stimulate subsidiary company management thinking, particularly on costs. This will be done by requiring subsidiary companies to develop a number of strategies to cope with a range of varying assumptions presented by the Group. This process should enable the Group to have a range of possible action strategies to cope with a range of outcomes and in which the demands of local companies circumstances have been taken fully into account. The final plan will thus be able to present a range of options and alternatives at the aggregate level.

#### Corporate Plan - Group and Government requirements

11. The discussion in the previous paragraphs suggests that the Group and Government requirements are not necessarily the same. The setting and monitoring of aims



for the operating companies is essentially a matter for the Group. There is a limit on how much company detail can, or should, be incorporated in the Corporate Plan. However some of the flavour of company response and initiative will require to be included in the Plan in order to show to the Government that business plans and the Group control are functioning satisfactorily. For the most part however the Corporate Plan will present aggregate company material to produce Group results.



NBPm



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MBE MP  
 Secretary of State  
 Department of Energy  
 Thames House South  
 Millbank  
 London SW1P 4QJ

20 December 1984

*Dear Secretary of State*

**NATIONALISED INDUSTRIES LEGISLATION:**  
**CONSULTATION PROPOSALS**

Following my letter to you of 5 December, colleagues were generally content that we should recommence consultations on our nationalised industries legislative proposals. I am informing the House accordingly later today and I am sending the enclosed letter and consultation note to the Nationalised Industries' Chairmen's Group. Some minor changes have been made to the draft note that I previously circulated.

The way is now open for sponsor Ministers to start consultations with their industries and I would be grateful if the Treasury could be kept closely in touch with progress. I understand that Cabinet are likely to be taking initial decisions about the 1985-86 legislative programme in late-February/early March and we will need by then to have at least a preliminary assessment of industries' reactions.

I am copying this letter to the Prime Minister, other E(NI) colleagues, Willie Whitelaw, Nicholas Edwards, John Biffen and Sir Robert Armstrong.

*Yours sincerely*

for PETER REES

*[Approved by the Chief Secretary]*



NATIONALISED INDUSTRIES LEGISLATION

Consultation Proposals

H M Treasury  
20 December 1984



The Government intends to legislate in due course to update various aspects of nationalised industry statutes. This note sets out the background to the proposed changes and indicates what areas might be covered. It has been prepared so that the Government can take account of comments on these proposals received by end-February 1985. There will be subsequent opportunities for nationalised industries to review detailed legislative proposals.

The Treasury is coordinating this consultation on behalf of the various Departments which sponsor nationalised industries. Departments will be discussing the proposals with individual industries. Comments should be sent either to the appropriate Department or to PE2 Division, HM Treasury, Parliament Street, London SW1P 3AG.



The Government has reviewed the existing statutes of nationalised industries and has concluded that they need to be updated. Although the differing nature of industries clearly needs to be recognised, a number of policies are applied consistently to all industries. Present statutes do not reflect this and vary greatly depending in part on when they were enacted. Some statutes are nearly forty years old and have not been kept in line with policies developed by successive Governments.

2. Private sector companies are regulated by a common set of statutory provisions and the Government considers that it would be advantageous if a single Act set out the core framework to be applied to nationalised industries. This would incorporate many provisions from existing statutes and would also reflect developments in the relationship between industries and the Government since statutes were originally enacted. The legislation that would result would provide clear guidelines within which those industries remaining in the public sector would have freedom to operate as successful, commercial businesses. Parliament, industries and the Government would know more clearly where they stand.

3. The proposed legislation would apply to all those industries listed in Annex A. It would set out standard provisions and also insert them appropriately into existing Acts. The powers would generally be permissive, allowing the use made of them to be tailored to the specific circumstances of each industry. In applying the new Act to individual industries, the Government would intend to use its powers only after proper consultation with the boards concerned.

4. It is proposed that the legislation should deal with the following:

- (i) Borrowing and guarantees
- (ii) Accounts, reports, and audit
- (iii) Financial targets
- (iv) Balance sheets
- (v) Terms of appointment of board members



(vi) Formation of companies and privatisation

The background to these proposals is set out below and Annex B describes in detail how the proposals might be implemented. Nearly all the proposals have precedents in existing legislation. There is an outstanding commitment to legislate to establish a more uniform legal basis for Nationalised Industry Consumer Councils operations and the Government is considering whether to extend its proposals to cover this. If so, the Government will consult separately about this.

5. In a number of cases, implementation of the proposed powers in respect of individual industries would involve supplementary legal procedures. The possible alternatives are notices in writing, formal directions, or statutory instruments which may or may not involve a Parliamentary procedure. The proposed method of implementation is shown where appropriate. Powers over industries' reserves, privatisation and financial targets would all be exercised via statutory instruments.

#### **BORROWING AND GUARANTEES**

6. The Government considers that all nationalised industries should have comprehensive powers to borrow with the approval of Ministers either within the UK or overseas. At present, some industries' statutes bar them from certain sources of finance and it is proposed that these restrictions should be removed. It is generally advantageous for industries to borrow from the National Loans Fund but removal of the restrictions would, for example, permit the introduction of market finance into any industry, if this was thought desirable.

7. The Public Accounts Committee (PAC) has recommended<sup>1</sup> that statutory borrowing limits of public bodies should include borrowings by subsidiaries and guarantees made by an industry or its subsidiaries in order to ensure Parliament's overall financial control of public bodies. Although borrowing limits might need to be substantially higher in recognition of the change, this would be no more than a recognition of the realities of the situation of which Parliament should be made fully aware. It is therefore proposed that the coverage



industries' borrowing limits should be adjusted to include borrowing by wholly-owned subsidiaries and all borrowing by third parties which is guaranteed by an industry or its wholly-owned subsidiaries.

8. Occasionally, new forms of raising finance are devised which legally are not defined as "borrowing" although they are closely akin. In order that borrowing limits can properly ensure overall financial control, it is proposed that there should be a mechanism for bringing such liabilities within the scope of borrowing limits. This power would be exercised via statutory instruments.

9. Some industries borrow in overseas currencies which may or may not be covered by the Public Sector Exchange Cover Scheme. In order to be included in an industry's statutory borrowing limit, such loans must be converted into sterling. It is proposed that the principles by which such loans are valued should be legally determined with the presumption that normal accounting principles would generally be followed (eg as set out in SSAP20) unless the Secretary of State specifies otherwise.

10. In order that a comprehensive set of provisions can be drafted, it is proposed also to include standard provisions relating to the issuing of Treasury guarantees, the purposes for which money can be borrowed, the setting of statutory borrowing limits (subject as now to Parliamentary procedure), the powers of the Secretary of State to lend to an industry, and some ancillary provisions.

#### **ACCOUNTS, REPORT AND AUDIT**

11. Individual industries' accounts are produced to a high standard and are often commended both for their content and manner of presentation. It would however assist those outside the industries who use the accounts, including Parliament and Government, if there were greater consistency in presentation and in the accounting principles that are applied. To supplement the overriding requirement that the accounts give a true and fair view, it is proposed to bring the differing statutory requirements governing the accounts into a common form in line with recent legislative precedents. There would be powers for the Secretary of State with the approval of the Treasury



to direct:

- (i) the information to be contained in the accounts,
- (ii) the manner in which the information is to be presented, and
- (iii) the methods and principles by which the accounts are to be prepared.

Given the overriding requirement that all industries' accounts give a true and fair view, the accounting rules and presentation set by the Secretary of State would have to be appropriate to the particular industry.

12. Industries' annual accounts should be audited to the highest standards comparable to those found in the private sector. Auditors should have generally the same rights and duties as those appointed under the Companies Acts. Although present audit provisions are comprehensive, they have certain technical deficiencies compared to analogous Companies Acts requirements (eg there is no statutory access to information) and it is proposed to remedy this.

13. Although what is said in an industry's annual report is essentially a matter for the industry, the Government thinks it right to be able to require that specified topics are included. These topics might include, for example, performance against targets and an industry's response to any MMC study that has been carried out during the year. Annual reports are all laid before Parliament and it is open to Parliament to examine industries on what is said. The reports are an important aspect of accountability and the inclusion of specified topics would strengthen this.

#### **FINANCIAL TARGETS**

14. It is Government policy that financial targets, normally expressed as a specified rate of return on assets, should be set for nationalised industries. These targets provide an incentive for industries to operate efficiently and are a proxy for the financial disciplines



found in the private sector. The targets which are set after consultation with the industry concerned, normally span a 3-5 year period, and are notified to Parliament or subject to a Parliamentary procedure.

15. In the case of nearly half the nationalised industries, it is already possible to give financial targets statutory backing. Because of their central place in the financial framework, the Government considers it right to give all targets this backing. It is proposed that Ministers should set targets for each industry after full consultation with its board and that boards should be required to conduct their affairs with a view to achieving whatever targets are currently in force. The target would thus not be cast in the form of an absolute duty. It is not intended that the proposed legislation should put performance aims or external financing limits (EFLs) onto a statutory basis.

16. Unlike the traditional break-even requirement, targets can be tailored to fit the circumstances of individual industries. The Government is therefore considering repealing existing breakeven duties which in their present statutory form are no longer a satisfactory form of control. If this is done, it would be necessary to place a duty on the Secretary of State to set a financial target in order to ensure that a vacuum is not created.

#### **BALANCE SHEETS**

17. Nationalised industry balance sheets are very different from those of private sector companies. When they were set up, most of the industries were given debt liabilities equal to their net assets, in the expectation that debt interest would adequately reflect the cost of capital employed. However, with time, the real value of this debt has been progressively eroded. There have also been substantial repayments and rising internal financing ratios. Overall, debt financing is now, on average, around 20 per cent of real capital employed, and interest payments amount to only 2 per cent per annum of capital employed. In the private sector, the impact of inflation in reducing the real cost of conventional debt has led to higher earnings and dividends on equity capital. A number of nationalised industries are approaching or have reached a debtfree position and



in the absence of an equivalent<sup>1</sup> to equity capital in their balance sheets have little or no external liabilities.

18. As the cost of capital has progressively disappeared from the accounts of some industries, their apparent profits have increased. More importantly, funds, which in the private sector would have gone into higher dividend payments to maintain or increase the worth of shareholders' capital have been entirely ploughed back into the business. The overall effect is to relax financial disciplines.

19. The PAC has considered<sup>2</sup> the position of industries which generate surpluses. It concluded that 'there should not be a strong presumption that surpluses in excess of interest commitments should all be retained by an industry'. It thought that 'an industry should not be allowed to amass reserves to such an extent that there is a danger of blunting the edge of the discipline that should operate on future investment decisions'.

20. Separately, the PAC has concluded<sup>3</sup> that the creation and maintenance of a suitable capital structure has an important role in promoting financial discipline. It recommended that the creation of liabilities to pay to the Exchequer out of surpluses 'a pre-determined sum related to the target set could be seen as equivalent to servicing the publicly-owned "equity" in the industries; and payments required in this way should be less of a disincentive to the management than claw-back arrangements.' The Government agrees with this.

21. The Government considers therefore that powers should be taken which would allow industries' balance sheets to be restructured. The powers, the exercise of which would require a Statutory Instrument to be laid before Parliament, would allow all or part of reserves to be capitalised as debt and public dividend capital. Restructuring would only be carried out after consultation with the industry affected and would be required to have due regard to the interests of creditors. The intention would be to create balance sheets that properly reflected a medium term view of industries' commercial circumstances and prospects taking account of financial targets.

22. Additionally, the Government intends to take powers which would



allow the introduction of new public dividend capital into industries in appropriate circumstances and is considering allowing lending on indexed-terms to the industries from the National Loans Fund.

23. In order that all matters relating to balance sheets can be brought together, the Government is considering consolidating existing powers over reserves which allow the Secretary of State to direct allocation and reallocations and permit control, if necessary, over the application of reserves within an industry.

#### TERMS OF APPOINTMENT OF BOARD MEMBERS

24. The Government has been considering terms of appointment of nationalised industry board members and thinks that there would be some advantage in more flexible provisions than currently operate. At present, some provisions are set out in primary legislation, others in regulations, and some in the individual instruments of appointment that are agreed with members before appointment.

25. It is proposed that in future all newly appointed or reappointed members should hold and vacate office in accordance with the instrument that appointed them and in accordance with any regulations currently in force. All such instruments would, as now, provide for a member's office to be declared vacant in certain specified circumstances (eg ill-health). General requirements of this sort might be laid down in regulations. Additionally, if the circumstances of a particular appointment made it appropriate, instruments might allow appointments to be terminated on due notice. (The Secretary of State would expect to consult a Board's Chairman before exercising such a power in respect of a board member and, where appropriate, the non-executive members before its exercise in respect of a Chairman. The Secretary of State would also expect to consult the Chairman before including such a provision in a member's instrument of appointment.) Instruments would provide for compensation to be paid if appointments are terminated, or if agreed notice is not given of the Secretary of State's intention not to reappoint at the end of a member's term of office, or if the Secretary of State thinks that there are circumstances which make it right to do so. As is generally the case now, industries would only be permitted to pay such remuneration to board members as had



been agreed by the Secretary of State.

26. The Government thinks that arrangements on the above lines would advantageously allow instruments of appointment to be negotiated that are more analogous to those found in the private sector. The exact terms and conditions applying to individual board members would of course be a matter for agreement at the time of the appointment although the Government would hope to agree some general principles with the Nationalised Industries Chairmen's Group covering for example periods of appointment and compensation provisions.

#### FORMATION OF COMPANIES AND PRIVATISATION

27. The Government considers as a general principle that activities of state-owned businesses should be transferred to the private sector where this makes commercial and practical sense. This enables market influences to operate to the benefit of the activities themselves, customers, employees, and the economy as a whole. For a number of industries, enabling legislation already exists that allows privatisation to take place. It is intended to extend this and apply general enabling legislation to all industries which would allow private capital to be introduced and activities and assets sold. However, complete privatisation of a whole corporation would continue to require primary legislation.

28. All industries would be given power to set up subsidiaries under the Companies Acts and transfer property, rights and liabilities to them. This would enable industries to carry out their activities through Companies Acts companies where this seems sensible and to structure their operations in accordance with normal commercial practice. This restructuring may or may not be a prelude to privatisation.

29. Powers, involving a Parliamentary procedure, would also be taken allowing Ministers to require that assets and activities are privatised in accordance with their instructions.

30. As a corollary to the above powers, Ministers would be able by order to require industries to discontinue specified activities and



direct them not to extend their interests. This power is already found in some existing statutes. It is proposed that its exercise should require a Parliamentary procedure.

31. Further details of how the above powers might be drafted are set out in Annex B.

### References

1. PAC's 8th Report 1977-78 Session and 1st Report 1979-80 Session.
2. PAC's 20th Report 1979-80.
3. PAC's 15th Report 1980-81 Session.



INDUSTRIES TO BE COVERED BY PROPOSED LEGISLATION

British Airports Authority  
Civil Aviation Authority  
National Coal Board  
Electricity Council  
Central Electricity Generating Board  
Area Electricity Boards  
North of Scotland Hydro-Electric Board  
South of Scotland Electricity Board  
British Gas Corporation  
British National Oil Corporation  
Post Office  
British Shipbuilders  
British Steel Corporation  
British Railways Board  
British Waterways Board  
Scottish Transport Group  
London Regional Transport  
Regional Water Authorities  
Welsh Water Authority

(National Bus Company omitted on presumption that bus legislation will be enacted in 1984-85 Session.)

So far as the land drainage and fisheries functions of regional water authorities are concerned, where the Minister of Agriculture, Fisheries and Food currently has powers in certain areas, either singly or jointly with the Secretary of State, he would continue to exercise such of these as would remain in force under the proposed legislation.



## DETAILS OF PROPOSED PROVISIONS

## 1. BORROWING AND GUARANTEES

(i) An industry may

(a) carry out temporary borrowing in sterling from the Secretary of State and with the consent of the Secretary of State and the approval of the Treasury in sterling or a currency other than sterling from a person other than the Secretary of State, such sums as may be required for itself, for any of its wholly-owned subsidiaries or for lending to any of its wholly owned subsidiaries.

(b) carry out borrowing other than by temporary loan in sterling from the Secretary of State and with the consent of the Secretary of State and the approval of the Treasury in sterling or a currency other than sterling from a person other than the Secretary of State such sums as may be required by the industry or any of its wholly-owned subsidiaries for any or all of the following purposes:

- provision of money for meeting any expenses incurred by the industry or the subsidiary in connection with any works the cost of which is chargeable to capital account
- provision of working capital required by it or the subsidiary
- subscription for or acquisition of securities of an incorporated company or other body corporate, promotion of the formation of an incorporated company or participation in the promotion of such a company or acquisition of an undertaking or part of an undertaking
- repayment of any money borrowed by it or the subsidiary, redemption of stock or other security and repayment of any sums issued by the Treasury in fulfilment of a guarantee



by the Treasury

- for lending money to or meeting a guarantee given for the benefit of any person for the purpose of an undertaking carried on by him or, where that person is a body corporate, an undertaking carried on by a subsidiary of that body corporate
- paying off any part of any commencing capital debt or, as the case may be, assumed capital debt of the industry or any other liability transferred to the industry.
- lending money to a subsidiary of the industry otherwise than by way of temporary loan
- for any other purpose for which capital moneys are properly applicable.

(ii) An industry may borrow from any of its wholly-owned subsidiaries without the consent or approval of the Secretary of State.

(iii) Industries to ensure that none of their wholly-owned subsidiaries borrow otherwise than from the industry or from another wholly-owned subsidiary except with the consent of the Secretary of State with the approval of Treasury.

(iv) Industries to have no power to borrow other than in accordance with their borrowing powers.

(v) The Secretary of State may give directions restricting or preventing an industry from lending to any or all of its wholly or partly-owned subsidiaries subject to such exceptions as he may specify. An industry shall not, and shall ensure that its wholly owned subsidiaries do not, guarantee third party borrowing except with the Secretary of State's consent and the Treasury's approval. The Secretary of State to have the power to order by statutory instrument that reference to guarantees be treated as extended to other types of indemnity.



(vi) A person lending money to the Corporation shall not be concerned to inquire whether the borrowing of the money is legal or regular.

(vii) The aggregate amount outstanding in respect of

(a) borrowing by the industry

(b) borrowing by the industry's wholly-owned subsidiaries

(c) borrowing by a third party (including partly owned subsidiaries) in respect of which the industry or one or more of its wholly owned subsidiaries is a guarantor

(d) sums issued by the Treasury in fulfilment of guarantees

(e) PDC issued to an industry or S18 BSC advances

(f) any public indebtedness transferred to or assumed by the industry

for each individual industry shall not exceed £X or such greater sum not exceeding £Y as the Secretary of State may from time to time specify by order (Statutory Instrument affirmative procedure).

(viii) Where a company ceases to be a wholly-owned subsidiary of an industry the Secretary of State may reduce the borrowing limit by order (Statutory Instrument negative procedure).

(ix) The Secretary of State with the approval of the Treasury may specify by order other transactions which shall be regarded as borrowing for the purpose of the borrowing limit and how the amount which is deemed to be borrowed shall be calculated (Statutory Instrument).

(x) The Secretary of State may, with the approval of the Treasury, lend to an industry any sums which it has power to borrow.

(xi) The Secretary of State may direct that any loans shall be repaid to him at such times and by such methods as he may, with the approval



of the Treasury, from time to time direct. Premature repayment would be possible on an agreed basis or, if loan agreements allow, the Secretary of State may, after having due regard to the interests of creditors, issue with the approval of the Treasury a direction requiring premature repayment of the whole or part of a loan which was originally made by the Secretary of State for a particular period.

(xii) The Secretary of State may, with the approval of the Treasury, direct how loans other than in sterling shall be valued in sterling for the purposes of the borrowing limit. In the absence of such a specification, normal accounting principles would apply.

(xiii) Borrowing between wholly-owned subsidiaries and between such subsidiaries and the industry shall not count towards the borrowing limit.



## 2. ACCOUNTS, REPORTS, AND AUDIT

(i) Duty on the industry to keep proper accounts and records; to prepare in respect of each accounting period a statement or statements of accounts or, where the industry has subsidiaries, consolidated accounts and/or such other form of group accounts as specified in a direction by the Secretary of State with the Treasury's approval giving a true and fair view of the state of affairs and profit and loss of the industry including all its subsidiaries with such exclusions which may be shown separately as the Secretary of State may, with the approval of the Treasury direct.

(ii) Subject to the overriding true and fair view, every statement of accounts prepared by the industry in accordance with (i) to comply with any direction given by the Secretary of State, with the approval of the Treasury, in relation to the information to be contained in the statements of accounts, the manner in which the information is to be presented, and the methods, accounting rules and principles according to which the statement is prepared. An industry may be required to present same information in different ways.

(iii) Power for the Secretary of State after consultation with the industry and approval of the Treasury from time to time to direct that the accounting period shall begin and/or end on such dates as specified in the direction.

(iv) All statements and accounts kept and prepared by the industry under this enactment to be audited at the end of the accounting year by auditors appointed by the Secretary of State after consultation with the industry. Secretary of State, with the approval of the Treasury, may direct an industry to exercise its power over the appointment of the auditors of any of its wholly-owned subsidiaries in a particular manner, either as to a particular person to be appointed or class of persons.

(v) Auditors appointed under (iv) above to be as appropriately recognised under section 161 of the Companies Act 1948.



(vi) Auditors appointed under (iv) above to have right of access at all times to the books and accounts and vouchers of the industry and every subsidiary whose affairs are to be dealt with in the statutory accounts and be entitled to require from the officers of the industry and any such subsidiary such information and explanation as are necessary for the performance of the duties of the auditors.

(vii) Duty on the subsidiary if incorporated in GB or Northern Ireland, and its auditors, of the industry to give to the auditors of the industry such information and explanation as those auditors may reasonably require for the purpose of their duties as auditors of the industry. Corresponding duty on the industry if required by its auditors to do so, to obtain such information and explanation as aforesaid.

(viii) As soon as accounts kept and statements prepared have been audited, an industry to send Secretary of State a copy of the statements; copies of the statements of accounts for those subsidiaries as the industry with the approval of the Secretary of State and consent of the Treasury, may determine; copies of the statements of accounts of each subsidiary of the industry which the Secretary of State, with the consent of the Treasury, may specify by notice in writing; and a copy of any report made by the auditors on the statements or accounts of the Corporation. Secretary of State to lay copies of all statements and any report by the auditors on the statements or accounts before each House of Parliament.

(ix) Duty on the industry to make to the Secretary of State, as soon as possible after the end of each accounting year, a report on the exercise and performance of its functions during that year and on its policy and programme (including activities of subsidiaries where material).

(x) Report made in (ix) above to include such information as the Secretary of State may specify in a direction; and the terms of any direction given by the Secretary of State during the year unless publication of any such direction thought by the Secretary of State



to be against the national interest.

(xi) Secretary of State to lay a copy of each annual report received by him in pursuance of (ix) before each House of Parliament.

(xii) The industry to keep at its principal offices copies of accounts kept and statements prepared under these provisions, together with the report of the auditors and annual report, to be available for inspection by the public during business hours, and to supply or make arrangements for the supply of copies to the public on demand, on payment of a reasonable charge if required.

(xiii) These provisions are without prejudice to any duty of the industry under any other enactment to provide information to the Secretary of State.



### 3. FINANCIAL TARGETS

(i) Duty on the Secretary of State with the approval of the Treasury and after consultation with the industry to lay down by order financial targets for the industry (Statutory Instrument). Such targets may be for different periods and relate to different assets and activities of the industry and may be varied or revoked. They may relate to the industry and its wholly-owned subsidiaries as a whole, or such part or parts as may be specified.

(ii) The industry shall conduct its affairs with a view to achieving any financial targets currently in force.

Note Present breakeven duties might be repealed.



#### 4. BALANCE SHEETS

(i) The Secretary of State, with the approval of the Treasury, may issue public dividend capital to an industry. An industry may with the agreement of the Secretary of State and shall if the Secretary of State with the approval of the Treasury requires them to do so, make payments to the Secretary of State in reduction of the public dividend capital of the industry. The industry may propose payment of a dividend which the Secretary of State with the Treasury's approval may accept; or the Secretary of State may after consultation with the industry and with the agreement of the Treasury direct from time to time the rate at which any public dividend capital held by the industry shall be remunerated.

(ii) The Secretary of State may after consultation with the industry and with the approval of the Treasury order that all or part of the reserves of an industry should be capitalised (ie converted into debt and/or public dividend capital) (Statutory Instrument negative procedure.) The principal of the debt shall be paid off, and interest on the loan shall be paid, in accordance with such arrangements as shall be from time to time determined by the Secretary of State with the approval of the Treasury. The repayment and remuneration of the public dividend capital would rank pari passu with any public dividend capital issued by the Secretary of State. As part of any general restructuring of a board's liabilities, the Secretary of State may with the approval of the Treasury direct that an industry should apply all or a specified part of a payment of public dividend capital in reduction of specified debts of the industry.

(iii) The Secretary of State may from time to time after consultation with the industry and with the approval of the Treasury direct the industry itself or require the industry to cause its wholly owned subsidiaries:

(a) to allocate to reserve generally or to reserve for a particular purpose either sums of such amount or description as he may specify.



(b) to reallocate for a specified purpose the whole or any part of any amount previously allocated to reserve for some other purpose.

(c) to apply amounts allocated to reserve for a specific purpose or in a specified manner.

(iv) Any allocations or re-allocations under (iii) may either be required to happen at a specific time or during the course of a specified period.

(v) The Secretary of State shall pay any sum he receives under these proposed powers into the Consolidated Fund.

(vi) The Secretary of State when exercising his powers set out above to have due regard to the interests of creditors of both the Corporation and its wholly-owned subsidiaries.



## 5. TERMS OF APPOINTMENT OF BOARD MEMBERS

In respect of new appointments and reappointments:

(i) Each member of the Board of each industry shall be appointed by the Secretary of State and shall hold and vacate office in accordance with the terms of his instrument of appointment and any regulations currently in force; on ceasing to be a member, he shall be eligible for reappointment.

(ii) The terms of appointment of a member may set out grounds for declaring an office vacant; and may provide for the removal of a member from office (without assigning cause) on notice from the Secretary of State of such length as may be specified in the instrument of appointment subject to compensation from the Board in accordance with paragraph (iii) below.

(iii) Where a person ceases to be a member of the Corporation in circumstances in which, by the terms of the instrument appointing him, compensation for loss of office or for insufficient notice of intention not to reappoint is payable or if it appears to the Secretary of State that there are special circumstances which make it reasonable to pay compensation, then the industry shall be directed by the Secretary of State with the approval of the Treasury to pay the member compensation in accordance with the terms set out in the instrument of appointment.

(iv) A member may resign his office by giving to the Secretary of State such notice as is specified in the instrument of appointment or such shorter notice as the Secretary of State may accept.

(v) Each industry shall pay to their Board members only such remuneration as may be determined by the Secretary of State with the consent of the Treasury.



## 6. FORMATION OF COMPANIES AND PRIVATISATION

(i) Industries to have the power to set up wholly owned subsidiaries under the Companies Act and with the consent of the Secretary of State and subject to any modification or conditions imposed by him be able by scheme to transfer shares, property, rights and liabilities to them or between one such subsidiary and another. Industries to be able to increase the capital of such subsidiaries. Scheme-making powers specified in legislation to be capable of subsequent amendment by order (Statutory Instrument negative procedure).

(ii) With the consent of the Secretary of State and the approval of the Treasury, an industry may provide for an employee share scheme to be established for any subsidiary established under the Companies Act and for shares to be transferred into such schemes without consideration.

(iii) Industries required to obtain, and secure that their wholly owned subsidiaries obtain, the consent of the Secretary of State and the approval of the Treasury before disposing of equity in wholly or partly-owned subsidiaries. The Secretary of State may require all or part of any consideration arising on disposal to be paid by the industry into the Consolidated Fund.

(iv) The Secretary of State may after consulting the industry and carrying out such other consultations as he thinks fit, order an industry in such manner as he specifies, to use its powers to set up wholly owned subsidiaries and to require shares, property, rights and liabilities to be transferred to them or between them (Statutory Instrument negative procedure). Power for the Secretary of State, with the approval of the Treasury, to order an industry to, or to cause its wholly owned subsidiaries to, dispose in such a manner, on such terms, at such a time, and for such purposes, as he specifies, of all or part of the equity of wholly owned subsidiaries, all or part of the equity held in partly owned subsidiaries, or such shares, property, rights, and obligations as is specified (Statutory Instrument negative procedure). The Secretary of State may require all or part of any consideration arising on disposal to be paid by the industry into the Consolidated Fund. He may by order transfer



to himself or to such persons as he or the Treasury specifies all or part of the share capital of a wholly owned subsidiary, all or part of the equity held in partly owned subsidiaries, or specified shares, property, rights and obligations, and, in consideration of this, pay out of money provided by Parliament such sums as he specifies (Statutory Instrument negative procedure). Power for the Secretary of State with the approval of the Treasury to sell or otherwise dispose of such shares, property, rights, or obligations and to pay any receipts into the Consolidated Fund.

(v) Power for the Secretary of State, after consultation with the industry to order an industry to discontinue any activity either wholly or to a specified extent; not to extend any activity or not to extend it beyond specified limits; and to exercise its control over any wholly owned subsidiary so as to cause the subsidiary to discontinue any activity either wholly or to a specified extent; not to extend any activity or not to extend it beyond specified limits. (Statutory instrument negative procedure).

(vi) An industry to require, or to cause its wholly owned subsidiaries to require, the consent of the Secretary of State before acquiring an interest in the capital of any company in which the industry or its wholly owned subsidiaries do not already hold an interest or to extend any interest presently held.

(vii) Power for the Secretary of State in order to facilitate the exercise of the powers set out above to be able by order to provide that the Acts applicable to any industry shall have effect with such modification as may be specified (Statutory Instrument negative procedure).

(viii) The Secretary of State when exercising his powers set out above to have due regard to the interests of creditors of both the Corporation and its wholly owned subsidiaries.

NAT IND. Policy Pt 9





Minister for Housing and Construction

Department of the Environment  
2 Marsham Street London SW1P 3EB  
Telephone 01-212 7601

CCNO

Ref: J/PSO/18727/84

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18 December 1984

Dear Chief Secretary,

NATIONALISED INDUSTRY LEGISLATION: CONSULTATION PROPOSALS

Thank you for sending to Patrick Jenkin a copy of your letter of 5<sup>th</sup> December with the consultation note on nationalised industry legislation.

I have reservations about the reference in paragraph 4 of the paper to a "more uniform legal basis for nationalised industry consumer councils' operations". In the last 12 months, we have instituted new arrangements for water authorities, under Section 5 of the Water Act, 1983. These arrangements reflect the water authorities' regulatory responsibilities, as well as their service functions. May I reserve judgement until the supplementary consultation note is available in draft form?

Two points arise on paragraphs 24-26 ("Terms of appointment of Board members"). First, when Patrick appointed 13 Chief Officers to full time membership of the 9 regional water authorities in October 1983, he did so on the basis that their terms and conditions of appointment would be no worse than would have applied had they not been appointed. That constitutes a precedent which is well-known in the industry, and when I am asked if we expect to follow it in future, I reply that we do. We have had Treasury agreement to giving this assurance in the past.

Secondly, I think it is impracticable for a Secretary of State to consult "the non-executive members" of a Board before terminating the appointment of the Chairman. There may be a dozen of them. Some will be closer to the Chairman than to the Secretary of State. It is a sensitive situation. I suggest that we might say:



"The Secretary of State would expect to consult a Board's Chairman before exercising a power of termination in respect of a Board member and also before including such a provision in a member's instrument of appointment" (omitting the intervening words).

I am interested to see (paragraph 15) that it is not intended to put External Financing Limits (EFLs) onto a statutory basis. I believe that if we are to enforce a negative EFL, it is necessary to have a statutory power in reserve. Section 29 (2)(b) of the Water Act 1973 provides such a power, and I am considering the need to use it in the case of Thames Water Authority to ensure that it complies with its negative EFL in 1985/86.

I am copying this letter to the Prime Minister, to other members of E(NI), the Lord President, the Lord Privy Seal, the Secretary of State for Wales and Sir Robert Armstrong.

*Yours sincerely,*

*N. K. G.*

*AP* IAN GOW

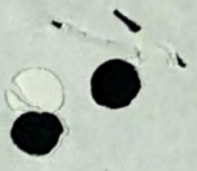
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and signed in his absence)*



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SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament St  
LONDON  
SW1P 3AG

14<sup>th</sup> December 1984

Dear Peter,

NATIONALISED INDUSTRIES LEGISLATION: CONSULTATION PROPOSALS

Thank you for sending me a copy of your letter of 5 December to Peter Walker. I am content with the draft consultation note attached to your letter and agree that we should embark on the consultation process without delay.

Once the document has gone to NICG and the individual industries I intend to send copies to the Electricity Consultative Councils in Scotland which have expressed a positive interest in the content of the proposed legislation. Otherwise I am content with the mechanics of consultation you have outlined.

I am sending copies of this letter to the Prime Minister, other E(NI) colleagues, the Lord President, Lord Privy Seal, the Secretary of State for Wales and Sir Robert Armstrong.

Yours ever,

George



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Policy

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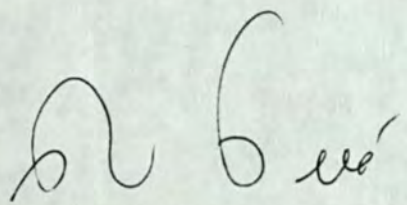
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The Rt Hon Peter Rees QC MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON SW1P 3AG

13 December 1984



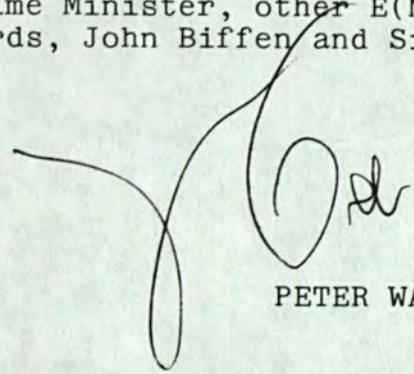
NATIONALISED INDUSTRIES LEGISLATION: CONSULTATION PROPOSALS

Thank you for your letter of 5 December and for letting me see the consultation document on the proposed Nationalised Industries Legislation.

I have to say that, in spite of the changes you have made since the earlier proposals, I do not expect the fears of the Chairmen of the Energy Nationalised Industries, as they have been expressed to me, to be much allayed by the consultative document. However, the document fairly reflects the terms of the E(NI) conclusion and I agree that it should form the basis of the further consultation you are now proposing.

You discussed how we might organise the consultation. If you are satisfied, from your contacts with the NICG, that the Chairmen will not feel affronted and be unnecessarily provoked by making the document as freely available as you describe, then I accept that the risks of leaks are such as to justify that course. I agree also that sponsor departments should have their own consultations with individual industries.

I am copying this letter to Prime Minister, other E(NI) colleagues, Willie Whitelaw, Nicholas Edwards, John Biffen and Sir Robert Armstrong.



PETER WALKER



Nat Ind: Policy Pt. 9.





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PRIVY COUNCIL OFFICE

WHITEHALL, LONDON SW1A 2AT

11 December 1984

Dear Peter,

NATIONALISED INDUSTRIES LEGISLATION: CONSULTATION PROPOSALS

I have seen a copy of your letter to Peter Walker of 5 December in which you asked for colleagues' views on your proposals for consultation.

I am in general entirely happy with what you propose, and I am glad to see that you are intending to end the consultation period by the end of February, which will I hope give ample time for the preparation of instructions and the drafting of the Bill ready for introduction at the beginning of the 1985/86 Session if Cabinet so approve. In that context, I hope that the proposal for a possible supplementary consultation note on nationalised industries consumer councils will not be allowed to run to a much later timetable.

I have only one small point of detail on the consultation document itself. The preamble says that there "will be subsequent opportunities for nationalised industries to review the detail of proposed legislation". This sounds as though you are intending to show the nationalised industries the legislation in draft. Whilst this is an admirable aim, I have some doubts whether it can realistically be fitted into the timescale which you have set yourself. I would therefore like to suggest that the words "proposed legislation" are deleted and replaced by "the proposals". If you do find yourself in a position to show them draft legislation, so much the better. However, by not giving a commitment at this stage it may be that you will be able to satisfy them by showing them preparatory papers or even the instructions to Counsel.

I am sending copies of this letter to the Prime Minister, members of E(NI), the Lord President, the Secretary of State for Wales and Sir Robert Armstrong.

Yours  
John Biffen

JOHN BIFFEN

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury



Nat. Ind. PT9

Policy

11 DEC 1984

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MBE MP  
 Secretary of State for Energy  
 Thames House South  
 Millbank  
 London SW1P 3EB

5 December 1984

*Dear Secretary of State*

**NATIONALISED INDUSTRIES LEGISLATION: CONSULTATION PROPOSALS**

E(NI) 6th meeting agreed not to proceed this Session with a Nationalised Industries Bill but to carry out further consultations with the industries. Officials in sponsoring Departments and the Treasury have considered how best to do this and have prepared the attached consultation note.

The consultation note, which is based on E(NI)(84) 14, sets out our intentions and explains why we think legislative changes are necessary. It takes into account wherever possible Chairmen's concerns over our earlier proposals. In particular:

- (i) it adopts a more flexible and simplified approach to the appointment and dismissal of board members. It places emphasis on the instruments of appointment agreed individually with Board members and the Secretary of State;
- (ii) it makes explicit that the statutory power being taken over financial targets is not intended to cover performance aims or EFLs;
- (iii) it spells out how powers might be exercised (e.g. by direction or by statutory instrument);
- (iv) it drops a general power to clawback industries' reserves and rests instead on the balance sheet restructuring proposals.

It also refers to the possibility that a Bill might include some long-promised legislation on nationalised industry consumer councils (NICCs). I understand that the Department of Trade and Industry would welcome this although a final decision awaits more detailed consideration.

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Once I know that you and other colleagues are content, I intend to see Mr Dent, the NICG Chairman, to let him know our intentions prior to sending the document to the NICG formally. Sponsor Departments can then open up consultations with individual industries and the Treasury will be happy to take part in these. I do not think that we can keep this process of consultation secret and I intend to inform Parliament via a low-key Written Answer and place a copy of the document in the Library. I do not think that we need deliberately stimulate comments but copies of the document will be made available on request to organisations who wish to see it.

If a Bill is to be got ready by the beginning of the 1985-86 Session, we need to have all comments on points of principle by end-February, although I shall want to review progress as the consultation proceeds. I would like to start this process as soon as possible and I would be grateful if you and colleagues would let me know by 12 December if you are content.

I am sending copies of this letter and enclosure to the Prime Minister, other E(NI) colleagues, the Lord President, the Lord Privy Seal, the Secretary of State for Wales and Sir Robert Armstrong.

*Yours sincerely*

*[Signature]*  
for PETER REES

*[Approved by the Secretary of State]*

CONFIDENTIAL



NATIONALISED INDUSTRIES LEGISLATION

Consultation Proposals

H M Treasury  
3 December 1984



The Government intends to legislate in due course to update various aspects of nationalised industry statutes. This note sets out the background to the proposed changes and indicates what areas might be covered. It has been prepared so that the Government can take account of comments on these proposals received by end-February 1985. There will be subsequent opportunities for nationalised industries to review the detail of proposed legislation.

The Treasury is coordinating this consultation on behalf of the various Departments which sponsor nationalised industries. Departments will be discussing the proposals with individual industries. Comments should be sent either to the appropriate Department or to PE2 Division, HM Treasury, Parliament Street, London SW1P 3AG.



The Government has reviewed the existing statutes of nationalised industries and has concluded that they need to be updated. Although the differing nature of industries clearly needs to be recognised, a number of policies are applied consistently to all industries. Present statutes do not reflect this and vary greatly depending in part on when they were enacted. Some statutes are nearly forty years old and have not been kept in line with policies developed by successive Governments.

2. Private sector companies are regulated by a common set of statutory provisions and the Government considers that it would be advantageous if a single Act set out the core framework to be applied to nationalised industries. This would incorporate many provisions from existing statutes and would also reflect developments in the relationship between industries and the Government since statutes were originally enacted. The legislation that would result would provide clear guidelines within which those industries remaining in the public sector would have freedom to operate as successful, commercial businesses. Parliament, industries and the Government would know more clearly where they stand.

3. The proposed legislation would apply to all those industries listed in Annex A. It would set out standard provisions and also insert them appropriately into existing Acts. The powers would generally be permissive, allowing the use made of them to be tailored to the specific circumstances of each industry. In applying the new Act to individual industries, the Government would intend to use its powers only after proper consultation with the boards concerned.

4. It is proposed that the legislation should deal with the following:

- (i) Borrowing and guarantees
- (ii) Accounts, reports, and audit
- (iii) Financial targets
- (iv) Balance sheets
- (v) Terms of appointment of board members



(vi) Formation of companies and privatisation

The background to these proposals is set out below and Annex B describes in detail how the proposals might be implemented. Nearly all the proposals have precedents in existing legislation. There is an outstanding commitment to legislate to establish a more uniform legal basis for Nationalised Industry Consumer Councils operations and the Government is considering whether to extend its proposals to cover this. If so, a supplementary consultation note will be issued.

5. In a number of cases, implementation of the proposed powers in respect of individual industries would involve supplementary legal procedures. The possible alternatives are notices in writing, formal directions, or statutory instruments which may or may not involve a Parliamentary procedure. The proposed method of implementation is shown where appropriate. Powers over industries' reserves, privatisation and financial targets would all be exercised via statutory instruments.

#### **BORROWING AND GUARANTEES**

6. The Government considers that all nationalised industries should have comprehensive powers to borrow with the approval of Ministers either within the UK or overseas. At present, some industries' statutes bar them from certain sources of finance and it is proposed that these restrictions should be removed. It is generally advantageous for industries to borrow from the National Loans Fund but removal of the restrictions would, for example, permit the introduction of market finance into any industry, if this was thought desirable.

7. The Public Accounts Committee (PAC) has recommended<sup>1</sup> that statutory borrowing limits of public bodies should include borrowings by subsidiaries and guarantees made by an industry or its subsidiaries in order to ensure Parliament's overall financial control of public bodies. Although borrowing limits might need to be substantially higher in recognition of the change, this would be no more than a recognition of the realities of the situation of which Parliament should be made fully aware. It is therefore proposed that the coverage



of industries' borrowing limits should be adjusted to include borrowing by wholly-owned subsidiaries and all borrowing by third parties which is guaranteed by an industry or its wholly-owned subsidiaries.

8. Occasionally, new forms of raising finance are devised which legally are not defined as "borrowing" although they are closely akin. In order that borrowing limits can properly ensure overall financial control, it is proposed that there should be a mechanism for bringing such liabilities within the scope of borrowing limits. This power would be exercised via statutory instruments.

9. Some industries borrow in overseas currencies which may or may not be covered by the Public Sector Exchange Cover Scheme. In order to be included in an industry's statutory borrowing limit, such loans must be converted into sterling. It is proposed that the principles by which such loans are valued should be legally determined with the presumption that normal accounting principles would generally be followed (eg as set out in SSAP20) unless the Secretary of State specifies otherwise.

10. In order that a comprehensive set of provisions can be drafted, it is proposed also to include standard provisions relating to the issuing of Treasury guarantees, the purposes for which money can be borrowed, the setting of statutory borrowing limits (subject as now to Parliamentary procedure), the powers of the Secretary of State to lend to an industry, and some ancillary provisions.

#### **ACCOUNTS, REPORT AND AUDIT**

11. Individual industries' accounts are produced to a high standard and are often commended both for their content and manner of presentation. It would however assist those outside the industries who use the accounts, including Parliament and Government, if there were greater consistency in presentation and in the accounting principles that are applied. To supplement the overriding requirement that the accounts give a true and fair view, it is proposed to bring the differing statutory requirements governing the accounts into a common form in line with recent legislative precedents. There would be powers for the Secretary of State with the approval of the Treasury



to direct:

- (i) the information to be contained in the accounts,
- (ii) the manner in which the information is to be presented, and
- (iii) the methods and principles by which the accounts are to be prepared.

Given the overriding requirement that all industries' accounts give a true and fair view, the accounting rules and presentation set by the Secretary of State would have to be appropriate to the particular industry.

12. Industries' annual accounts should be audited to the highest standards comparable to those found in the private sector. Auditors should have generally the same rights and duties as those appointed under the Companies Act. Although present audit provisions are comprehensive, they have certain technical deficiencies compared to analogous Companies Acts requirements (eg there is no statutory access to information) and it is proposed to remedy this.

13. Although what is said in an industry's annual report is essentially a matter for the industry, the Government thinks it right to be able to require that specified topics are included. These topics might include, for example, performance against targets and an industry's response to any MMC study that has been carried out during the year. Annual reports are all laid before Parliament and it is open to Parliament to examine industries on what is said. The reports are an important aspect of accountability and the inclusion of specified topics would strengthen this.

#### **FINANCIAL TARGETS**

14. It is Government policy that financial targets, normally expressed as a specified rate of return on assets, should be set for nationalised industries. These targets provide an incentive for industries to operate efficiently and are a proxy for the financial disciplines



found in the private sector. The targets which are set after consultation with the industry concerned, normally span a 3-5 year period, and are notified to Parliament or subject to a Parliamentary procedure.

15. In the case of nearly half the nationalised industries, it is already possible to give financial targets statutory backing. Because of their central place in the financial framework, the Government considers it right to give all targets this backing. It is proposed that Ministers should set targets for each industry after full consultation with its board and that boards should be required to conduct their affairs with a view to achieving whatever targets are currently in force. The target would thus not be cast in the form of an absolute duty. It is not intended that performance aims or external financing limits (EFLs) should be put onto a statutory basis.

16. Unlike the traditional break-even requirement, targets can be tailored to fit the circumstances of individual industries. The Government proposes to repeal existing breakeven duties which in their present statutory form are no longer a satisfactory form of control. If this is done, it would be necessary to place a duty on the Secretary of State to set a financial target in order to ensure that a vacuum is not created.

#### **BALANCE SHEETS**

17. Nationalised industry balance sheets are very different from those of private sector companies. When they were set up, most of the industries were given debt liabilities equal to their net assets, in the expectation that debt interest would adequately reflect the cost of capital employed. However, with time, the value of this debt has been progressively eroded. There have also been substantial repayments and rising internal financing ratios. Overall, debt financing is now, on average, around 20 per cent of real capital employed, and interest payments amount to only 2 per cent per annum of capital employed. By contrast, in the private sector, the impact of inflation in reducing the real cost of conventional debt has led to higher earnings and dividends on equity capital. A number of nationalised industries are approaching or have reached a debtfree



position and in the absence of an equivalent to equity capital in their balance sheets have little or no external liabilities.

18. As the cost of capital has progressively disappeared from the accounts of some industries, their apparent profits have increased. More importantly, funds, which in the private sector would have gone into higher dividend payments to maintain or increase the real value of shareholders' capital have been entirely ploughed back into the business. The overall effect is to relax financial disciplines.

19. The PAC has considered<sup>2</sup> the position of industries which generate surpluses. It concluded that 'there should not be a strong presumption that surpluses in excess of interest commitments should all be retained by an industry'. It thought that 'an industry should not be allowed to amass reserves to such an extent that there is a danger of blunting the edge of the discipline that should operate on future investment decisions'.

20. Separately, the PAC has concluded<sup>3</sup> that the creation and maintenance of a suitable capital structure has an important role in promoting financial discipline. It recommended that the creation of liabilities to pay to the Exchequer out of surpluses 'a pre-determined sum related to the target set could be seen as equivalent to servicing the publicly-owned "equity" in the industries; and payments required in this way should be less of a disincentive to the management than claw-back arrangements.' The Government agrees with this.

21. The Government considers therefore that powers should be taken which would allow industries' balance sheets to be restructured. The powers, the exercise of which would require a Statutory Instrument to be laid before Parliament, would allow all or part of reserves to be capitalised as debt and public dividend capital. Restructuring would only be carried out after consultation with the industry affected and would be required to have due regard to the interests of creditors. The intention would be to create balance sheets that properly reflected a medium term view of industries' commercial circumstances and prospects taking account of financial targets.

22. Additionally, the Government intends to take powers which would



allow the introduction of new public dividend capital into industries in appropriate circumstances and is considering allowing lending on indexed-terms to the industries from the National Loans Fund.

23. In order that all matters relating to balance sheets can be brought together, the Government is considering consolidating existing powers over reserves which allow the Secretary of State to direct allocation and reallocations and permit control, if necessary, over the application of reserves within an industry.

#### TERMS OF APPOINTMENT OF BOARD MEMBERS

24. The Government has been considering terms of appointment of nationalised industry board members and thinks that there would be some advantage in more flexible provisions than currently operate. At present, some provisions are set out in primary legislation, others in regulations, and some in the individual instruments of appointment that are agreed with members before appointment.

25. It is proposed that in future all newly appointed or reappointed members should hold and vacate office in accordance with the instrument that appointed them and in accordance with any regulations currently in force. All such instruments would, as now, provide for a member's office to be declared vacant in certain specified circumstances (eg ill-health). General requirements of this sort might be laid down in regulations. Additionally, if the circumstances of a particular appointment made it appropriate, instruments might allow appointments to be terminated on due notice. (The Secretary of State would expect to consult a Board's chairman before exercising such a power in respect of a board member and the non-executive members before its exercise in respect of a Chairman. The Secretary of State would also expect to consult the Chairman before including such a provision in a member's Instrument of appointment.) Instruments would provide for compensation to be paid if appointments are terminated, [or if agreed notice is not given of the Secretary of State's intention not to reappoint at the end of a member's term of office,] or if the Secretary of State thinks that there are circumstances which make it right to do so. As is generally the case now, industries would only be permitted to pay such remuneration to board members as had been agreed by the



Secretary of State.

26. The Government thinks that arrangements on the above lines would advantageously allow instruments of appointment to be negotiated that are more analogous to those found in the private sector. The exact terms and conditions applying to individual board members would of course be a matter for agreement at the time of the appointment although the Government would hope to agree some general principles with the Nationalised Industries Chairmen's Group covering for example periods of appointment and compensation provisions.

#### **FORMATION OF COMPANIES AND PRIVATISATION**

27. The Government considers as a general principle that activities of state-owned businesses should be transferred to the private sector where this makes commercial and practical sense. This enables market influences to operate to the benefit of the activities themselves, customers, employees, and the economy as a whole. For a number of industries, enabling legislation already exists that allows privatisation to take place. It is intended to extend this and apply general enabling legislation to all industries which would allow private capital to be introduced and activities and assets sold. However, complete privatisation of a whole corporation would continue to require primary legislation.

28. All industries would be given power to set up subsidiaries under the Companies Acts and transfer property, rights and liabilities to them. This would enable industries to carry out their activities through Companies Acts companies where this seems sensible and to structure their operations in accordance with normal commercial practice. This restructuring may or may not be a prelude to privatisation.

29. Powers, involving a Parliamentary procedure, would also be taken allowing Ministers to require that assets and activities are privatised in accordance with their instructions.

30. As a corollary to the above powers, Ministers would be able by order to require industries to discontinue specified activities and



direct them not to extend their interests. This power is already found in some existing statutes. It is proposed that its exercise should require a Parliamentary procedure.

31. Further details of how the above powers might be drafted are set out in Annex B.

#### References

1. PAC's 8th Report 1977-78 Session and 1st Report 1979-80 Session.
2. PAC's 20th Report 1979-80.
3. PAC's 15th Report 1980-81 Session.



ANNEX A

INDUSTRIES TO BE COVERED BY PROPOSED LEGISLATION

British Airports Authority  
Civil Aviation Authority  
National Coal Board  
Electricity Council  
Central Electricity Generating Board  
Area Electricity Boards  
North of Scotland Hydro-Electric Board  
South of Scotland Electricity Board  
British Gas Corporation  
British National Oil Corporation  
Post Office  
British Shipbuilders  
British Steel Corporation  
British Railways Board  
British Waterways Board  
Scottish Transport Group  
London Regional Transport  
Regional Water Authorities  
Welsh Water Authority

(National Bus Company omitted on presumption that bus legislation will be enacted in 1984-85 Session.)



DETAILS OF PROPOSED PROVISIONS

1. BORROWING AND GUARANTEES

(i) An industry may

(a) carry out temporary borrowing in sterling from the Secretary of State and with the consent of the Secretary of State and the approval of the Treasury in sterling or a currency other than sterling from a person other than the Secretary of State, such sums as may be required for itself, for any of its wholly-owned subsidiaries or for lending to any of its wholly owned subsidiaries.

(b) carry out borrowing other than by temporary loan in sterling from the Secretary of State and with the consent of the Secretary of State and the approval of the Treasury in sterling or a currency other than sterling from a person other than the Secretary of State such sums as may be required by the industry or any of its wholly-owned subsidiaries for any or all of the following purposes:

- provision of money for meeting any expenses incurred by the industry or the subsidiary in connection with any works the cost of which is chargeable to capital account
- provision of working capital required by it or the subsidiary
- subscription for or acquisition of securities of an incorporated company or other body corporate, promotion of the formation of an incorporated company or participation in the promotion of such a company or acquisition of an undertaking or part of an undertaking
- repayment of any money borrowed by it or the subsidiary, redemption of stock or other security and repayment of any sums issued by the Treasury in fulfilment of a guarantee



by the Treasury

- for lending money to or meeting a guarantee given for the benefit of any person for the purpose of an undertaking carried on by him or, where that person is a body corporate, an undertaking carried on by a subsidiary of that body corporate
- paying off any part of any commencing capital debt or, as the case may be, assumed capital debt of the industry or any other liability transferred to the industry.
- lending money to a subsidiary of the industry otherwise than by way of temporary loan
- for any other purpose for which capital moneys are properly applicable.

(ii) An industry may borrow from any of its wholly-owned subsidiaries without the consent or approval of the Secretary of State.

(iii) Industries to ensure that none of their wholly-owned subsidiaries borrow otherwise than from the industry or from another wholly-owned subsidiary except with the consent of the Secretary of State with the approval of Treasury.

(iv) Industries to have no power to borrow other than in accordance with their borrowing powers.

(v) The Secretary of State may give directions restricting or preventing an industry from lending to any or all of its wholly or partly-owned subsidiaries subject to such exceptions as he may specify. An industry shall not, and shall ensure that its wholly owned subsidiaries do not, guarantee third party borrowing except with the Secretary of State's consent and the Treasury's approval. The Secretary of State to have the power to order by statutory instrument that reference to guarantees be treated as extended to other types of indemnity.



(vi) A person lending money to the Corporation shall not be concerned to inquire whether the borrowing of the money is legal or regular.

(vii) The aggregate amount outstanding in respect of

(a) borrowing by the industry

(b) borrowing by the industry's wholly-owned subsidiaries

(c) borrowing by a third party (including partly owned subsidiaries) in respect of which the industry or one or more of its wholly owned subsidiaries is a guarantor

(d) sums issued by the Treasury in fulfilment of guarantees

(e) PDC issued to an industry or S18 BSC advances

(f) any public indebtedness transferred to or assumed by the industry

for each individual industry shall not exceed £X or such greater sum not exceeding £Y as the Secretary of State may from time to time specify by order (Statutory Instrument affirmative procedure).

(viii) Where a company ceases to be a wholly-owned subsidiary of an industry the Secretary of State may reduce the borrowing limit by order (Statutory Instrument negative procedure).

(ix) The Secretary of State with the approval of the Treasury may specify by order other transactions which shall be regarded as borrowing for the purpose of the borrowing limit and how the amount which is deemed to be borrowed shall be calculated (Statutory Instrument).

(x) The Secretary of State may, with the approval of the Treasury, lend to an industry any sums which it has power to borrow.

(xi) The Secretary of State may direct that any loans shall be repaid to him at such times and by such methods as he may, with the approval



of the Treasury, from time to time direct. Premature repayment would be possible on an agreed basis or, if loan agreements allow, the Secretary of State may, after having due regard to the interests of creditors, issue with the approval of the Treasury a direction requiring premature repayment of the whole or part of a loan which was originally made by the Secretary of State for a particular period.

(xii) The Secretary of State may, with the approval of the Treasury, direct how loans other than in sterling shall be valued in sterling for the purposes of the borrowing limit. In the absence of such a specification, normal accounting principles would apply.

(xiii) Borrowing between wholly-owned subsidiaries and between such subsidiaries and the industry shall not count towards the borrowing limit.



## 2. ACCOUNTS, REPORTS, AND AUDIT

(i) Duty on the industry to keep proper accounts and records; to prepare in respect of each accounting period a statement or statements of accounts or, where the industry has subsidiaries, consolidated accounts and/or such other form of group accounts as specified in a direction by the Secretary of State with the Treasury's approval giving a true and fair view of the state of affairs and profit and loss of the industry including all its subsidiaries with such exclusions which may be shown separately as the Secretary of State may, with the approval of the Treasury direct.

(ii) Subject to the overriding true and fair view, every statement of accounts prepared by the industry in accordance with (i) to comply with any direction given by the Secretary of State, with the approval of the Treasury, in relation to the information to be contained in the statements of accounts, the manner in which the information is to be presented, and the methods, accounting rules and principles according to which the statement is prepared. An industry may be required to present same information in different ways.

(iii) Power for the Secretary of State after consultation with the industry and approval of the Treasury from time to time to direct that the accounting period shall begin and/or end on such dates as specified in the direction.

(iv) All statements and accounts kept and prepared by the industry under this enactment to be audited at the end of the accounting year by auditors appointed by the Secretary of State after consultation with the industry. Secretary of State, with the approval of the Treasury, may direct an industry to exercise its power over the appointment of the auditors of any of its wholly-owned subsidiaries in a particular manner, either as to a particular person to be appointed or class of persons.

(v) Auditors appointed under (iv) above to be a member either of one or more bodies of accountants established in the United Kingdom and recognised for the purposes of section 161 of the Companies Act 1948 by the Secretary of State.



(vi) Auditors appointed under (iv) above to have right of access at all times to the books and accounts and vouchers of the industry and every subsidiary whose affairs are to be dealt with in the statutory accounts and be entitled to require from the officers of the industry and any such subsidiary such information and explanation as are necessary for the performance of the duties of the auditors.

(vii) Duty on the subsidiary if incorporated in GB or Northern Ireland, and its auditors, of the industry to give to the auditors of the industry such information and explanation as those auditors may reasonably require for the purpose of their duties as auditors of the industry. Corresponding duty on the industry if required by its auditors to do so, to obtain such information and explanation as aforesaid.

(viii) As soon as accounts kept and statements prepared have been audited, an industry to send Secretary of State a copy of the statements; copies of the statements of accounts for those subsidiaries as the industry with the approval of the Secretary of State and consent of the Treasury, may determine; copies of the statements of accounts of each subsidiary of the industry which the Secretary of State, with the consent of the Treasury, may specify by notice in writing; and a copy of any report made by the auditors on the statements or accounts of the Corporation. Secretary of State to lay copies of all statements and any report by the auditors on the statements or accounts before each House of Parliament.

(ix) Duty on the industry to make to the Secretary of State, as soon as possible after the end of each accounting year, a report on the exercise and performance of its functions during that year and on its policy and programme (including activities of subsidiaries where material).

(x) Report made in (ix) above to include such information as the Secretary of State may specify in a direction; and the terms of any direction given by the Secretary of State during the year unless publication of any such direction thought by the Secretary of State



to be against the national interest.

(xi) Secretary of State to lay a copy of each annual report received by him in pursuance of (ix) before each House of Parliament.

(xii) The industry to keep at its principal offices copies of accounts kept and statements prepared under these provisions, together with the report of the auditors and annual report, to be available for inspection by the public during business hours, and to supply or make arrangements for the supply of copies to the public on demand, on payment of a reasonable charge if required.

(xiii) These provisions are without prejudice to any duty of the industry under any other enactment to provide information to the Secretary of State.



### 3. FINANCIAL TARGETS

(i) Duty on the Secretary of State with the approval of the Treasury and after consultation with the industry to lay down by order financial targets for the industry (Statutory Instrument). Such targets may be for different periods and relate to different assets and activities of the industry and may be varied or revoked. They may relate to the industry and its wholly-owned subsidiaries as a whole, or such part or parts as may be specified.

(ii) The industry shall conduct its affairs with a view to achieving any financial targets currently in force.

Note Present breakeven duties will be repealed.



#### 4. BALANCE SHEETS

(i) The Secretary of State, with the approval of the Treasury, may issue public dividend capital to an industry. An industry may with the agreement of the Secretary of State and shall if the Secretary of State with the approval of the Treasury requires them to do so, make payments to the Secretary of State in reduction of the public dividend capital of the industry. The industry may propose payment of a dividend which the Secretary of State with the Treasury's approval may accept; or the Secretary of State may after consultation with the industry and with the agreement of the Treasury direct from time to time the rate at which any public dividend capital held by the industry shall be remunerated.

(ii) The Secretary of State may after consultation with the industry and with the approval of the Treasury order that all or part of the reserves of an industry should be capitalised (ie converted into debt and/or public dividend capital) (Statutory Instrument negative procedure.) The principal of the debt shall be paid off, and interest on the loan shall be paid, in accordance with such arrangements as shall be from time to time determined by the Secretary of State with the approval of the Treasury. The repayment and remuneration of the public dividend capital would rank *pari passu* with any public dividend capital issued by the Secretary of State. As part of any general restructuring of a board's liabilities, the Secretary of State may with the approval of the Treasury direct that an industry should apply all or a specified part of a payment of public dividend capital in reduction of specified debts of the industry.

(iii) The Secretary of State may from time to time after consultation with the industry and with the approval of the Treasury direct the industry itself or require the industry to cause its wholly owned subsidiaries:

(a) to allocate to reserve generally or to reserve for a particular purpose either sums of such amount or description as he may specify.



(b) to reallocate for a specified purpose the whole or any part of any amount previously allocated to reserve for some other purpose.

(c) to apply amounts allocated to reserve for a specific purpose or in a specified manner.

(iv) Any allocations or re-allocations under (iii) may either be required to happen at a specific time or during the course of a specified period.

(v) The Secretary of State shall pay any sum he receives under these proposed powers into the Consolidated Fund.

(vi) The Secretary of State when exercising his powers set out above to have due regard to the interests of creditors of both the Corporation and its wholly-owned subsidiaries.



## 5. TERMS OF APPOINTMENT OF BOARD MEMBERS

In respect of new appointments and reappointments:

(i) Each member of the Board of each industry shall be appointed by the Secretary of State and shall hold and vacate office in accordance with the terms of his instrument of appointment and any regulations currently in force; on ceasing to be a member, he shall be eligible for reappointment.

(ii) The terms of appointment of a member may set out grounds for declaring an office vacant; and may provide for the removal of a member from office (without assigning cause) on notice from the Secretary of State of such length as may be specified in the instrument of appointment subject to compensation from the Board in accordance with paragraph (iii) below.

(iii) Where a person ceases to be a member of the Corporation in circumstances in which, by the terms of the instrument appointing him, compensation for loss of office or for insufficient notice of intention not to reappoint is payable or if it appears to the Secretary of State that there are special circumstances which make it reasonable to pay compensation, then the industry shall be directed by the Secretary of State with the approval of the Treasury to pay the member compensation in accordance with the terms set out in the instrument of appointment.

(iv) A member may resign his office by giving to the Secretary of State such notice as is specified in the instrument of appointment or such shorter notice as the Secretary of State may accept.

(v) Each industry shall pay to their Board members only such remuneration as may be determined by the Secretary of State with the consent of the Treasury.



## 6. FORMATION OF COMPANIES AND PRIVATISATION

(i) Industries to have the power to set up wholly owned subsidiaries under the Companies Act and with the consent of the Secretary of State and subject to any modification or conditions imposed by him be able by scheme to transfer shares, property, rights and liabilities to them or between one such subsidiary and another. Industries to be able to increase the capital of such subsidiaries. Scheme-making powers specified in legislation to be capable of subsequent amendment by order (Statutory Instrument negative procedure).

(ii) With the consent of the Secretary of State and the approval of the Treasury, an industry may provide for an employee share scheme to be established for any subsidiary established under the Companies Act and for shares to be transferred into such schemes without consideration.

(iii) Industries required to obtain, and secure that their wholly owned subsidiaries obtain, the consent of the Secretary of State and the approval of the Treasury before disposing of equity in wholly or partly-owned subsidiaries. The Secretary of State may require all or part of any consideration arising on disposal to be paid by the industry into the Consolidated Fund.

(iv) The Secretary of State may after consulting the industry and carrying out such other consultations as he thinks fit, order an industry in such manner as he specifies, to use its powers to set up wholly owned subsidiaries and to require shares, property, rights and liabilities to be transferred to them or between them (Statutory Instrument negative procedure). Power for the Secretary of State, with the approval of the Treasury, to order an industry to, or to cause its wholly owned subsidiaries to, dispose in such a manner, on such terms, at such a time, and for such purposes, as he specifies, of all or part of the equity of wholly owned subsidiaries, all or part of the equity held in partly owned subsidiaries, or such shares, property, rights, and obligations as is specified (Statutory Instrument negative procedure). The Secretary of State may require all or part of any consideration arising on disposal to be paid by the industry into the Consolidated Fund. He may by order transfer



to himself or to such persons as he or the Treasury specifies all or part of the share capital of a wholly owned subsidiary, all or part of the equity held in partly owned subsidiaries, or specified shares, property, rights and obligations, and, in consideration of this, pay out of money provided by Parliament such sums as he specifies (Statutory Instrument negative procedure). Power for the Secretary of State with the approval of the Treasury to sell or otherwise dispose of such shares, property, rights, or obligations and to pay any receipts into the Consolidated Fund.

(v) Power for the Secretary of State, after consultation with the industry to order an industry to discontinue any activity either wholly or to a specified extent; not to extend any activity or not to extend it beyond specified limits; and to exercise its control over any wholly owned subsidiary so as to cause the subsidiary to discontinue any activity either wholly or to a specified extent; not to extend any activity or not to extend it beyond specified limits. (Statutory instrument negative procedure).

(vi) An industry to require, or to cause its wholly owned subsidiaries to require, the consent of the Secretary of State before acquiring an interest in the capital of any company in which the industry or its wholly owned subsidiaries do not already hold an interest or to extend any interest presently held.

(vii) Power for the Secretary of State in order to facilitate the exercise of the powers set out above to be able by order to provide that the Acts applicable to any industry shall have effect with such modification as may be specified (Statutory Instrument negative procedure).

(viii) The Secretary of State when exercising his powers set out above to have due regard to the interests of creditors of both the Corporation and its wholly owned subsidiaries.





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Treasury Chambers, Parliament Street, SW1P 3AG

M F Reidy Esq  
Private Secretary to  
Secretary of State for Energy  
Department of Energy  
Thames House South  
Millbank  
London  
SW1

15 November 1984

Dear Mike

**NATIONALISED INDUSTRIES: PUBLICATION OF LATER YEAR FIGURES**

The Chief Secretary wrote to your Secretary of State on 17 October about the possible publication of individual nationalised industry EFLs for years 2 and 3 of the Survey period. He is grateful to your Secretary of State and other colleagues who have commented on the proposal. In view of the widespread doubts expressed, the Chief Secretary has decided that we should keep to the existing arrangements for the time being

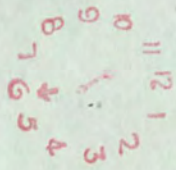
I am copying this letter to the Private Secretaries to the Prime Minister, other members of E(NI) and Sir Robert Armstrong.

Yours sincerely  
Richard Broadbent

R J BROADBENT  
Private Secretary



NAT IND : Policy: Pt-9,



16 NOV 1984





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Treasury Chambers, Parliament Street, SW1P 3AG

Alex Fletcher Esq MP  
Parliamentary Under Secretary of State  
for Corporate and Consumer Affairs  
Department of Trade and Industry  
1 - 19 Victoria Street  
London  
SW1H 0ET

13 November 1984

Dear Minister

with AT?

**COMPETITION ACT 1980 SECTION 11: NATIONALISED INDUSTRY  
REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION**

Thank you for your letter of 7 November.

I agree that postponement of the Post Office counter services referral is most disappointing, especially as the 1984 programme will now be reduced to only half of its original size. But, in the circumstances, I can well see that we stand to obtain considerably more value from a 1985 reference.

I am also generally content with your proposals on post audit referrals. Although I very much hope that the 1985 programme will proceed as now planned, I agree that a re-referral of British Rail commuter services is a very strong possibility should any of the currently expected references subsequently have to be dropped and should no other candidate be available for a first time main-stream reference.

I am content with your proposed statement.

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

Yours sincerely

PETER REES

[Approved by the Chief Secretary]



W. L. W.  
P. L. W.

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207  
B/C: N. OWEN

10 DOWNING STREET

*From the Private Secretary*

13 November, 1984

E(NI):  
HMT  
DOE  
SO  
DTI  
D. Trans  
Chief Sec.  
Dept of Energy  
Emp  
CO  
CDL

COMPETITION ACT 1980, SECTION 11 REFERENCES

The Prime Minister has seen Mr. Fletcher's letter of 7 November to the Chief Secretary. She is content with the programme that is now proposed.

I am sending a copy of this letter to the Private Secretaries to members of E(NI) and to Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

Ms. D. Griffiths,  
Department of Trade & Industry.

rk



Prime Minister ③  
To note that DTI have  
gone some way to  
meeting the points  
we raised with them.

CONFIDENTIAL

MR TURNBULL

AT 12/11

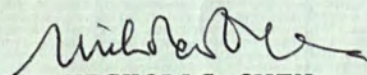
12 November 1984

COMPETITION ACT 1980, SECTION 11 REFERENCES

Alex Fletcher has moved some way to accommodate two  
points in the Prime Minister's note:

- suitable emphasis on BSC's investment planning and appraisal in the BSC reference;
- a commitment to a post-audit (British Rail Southern Region in 1986, or 1985 if one of the 1985 references has to be dropped).

A definite commitment to one post-audit in 1985 would obviously have been better but the point of principle has clearly been accepted by DTI. I suggest that the Prime Minister should minute that she is content with what is proposed.

  
NICHOLAS OWEN

CONFIDENTIAL





## CABINET OFFICE

*From the Chancellor of the  
Duchy of Lancaster*  
Lord Gowrie

MANAGEMENT AND PERSONNEL OFFICE  
Great George Street  
London SW1P 3AL  
Telephone 01-233 8610

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON SW1

8 November 1984

*Dear Peter,*

PUBLICATION OF FUTURE YEARS EXTERNAL FINANCIAL REQUIREMENTS

I have seen your letter of 17 October to members of E(NI) proposing publication of the nationalised industry external financing requirements in the second and third year of the Survey period.

Those with responsibilities for nationalised industries are, of course, better placed than I to comment on the managerial and financial issues your proposals raise. But there are three general points which strike me.

- (i) If we cannot legitimately resist disclosure of this information to departmental select committees, and if it is therefore going to come out anyway, it would be better for us to volunteer it rather than be forced to reveal it.
- (ii) Disclosure of such information is a very sensitive issue with select committees. Your proposals do, to some extent, link in with the work John Biffen has been doing following up the disclosure of the British Shipbuilders' Corporate Plan to the Trade and Industry Committee in July. Indeed, if departments are generally content with your proposals, they could be used by John as a 'sweetener' in the proposed discussions with Terence Higgins which he mentioned in his minute to the Prime Minister at the end of October.



(iii) The release of any 'new' information, particularly in response to suggestions from Select Committees, lends support to our arguments against the introduction of Freedom of Information legislation ie that it is unnecessary because our record is good and improving, and inappropriate because Ministers should be responsible to Parliament not the Courts for issues related to the disclosure of official information.

I am copying this letter to the Prime Minister, members of E(NI), John Biffen and Sir Robert Armstrong.

*Law,  
T/M  
2*

GOWRIE



EG NOV 1984

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B/F  
with the response  
AT 7/11

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215)  
GTN 215) 5662  
(Switchboard) 215 7877

From the Parliamentary Under Secretary of State  
for Corporate and Consumer Affairs

The Rt Hon Peter Rees QC MP  
Chief Secretary  
HM Treasury  
Treasury Chambers  
Parliament Street  
London  
SW1P 3AG

7 November 1984

Dear Chief Secretary

**COMPETITION ACT 1980, SECTION 11: NATIONALISED INDUSTRY REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION**

I am grateful for the comments and suggestions in response to Norman Tebbit's letter of 18 September on the 1985 programme of investigations by the Monopolies and Mergers Commission.

Since Norman wrote, a further problem has arisen on the 1984 programme. The Post Office Chairman has requested that the reference of counter services proposed for this year should be postponed because of the effects of the DHSS industrial action. This has resulted in a major increase in the counters workload, imposing severe pressures on the relevant top management and creating abnormal conditions which could affect the MMC's ability to analyse the position properly. I do not believe it would be sensible to proceed at this time and propose to defer the reference into 1985 when it would provide the sixth reference to complete the programme. The further depletion of this year's programme is regrettable. But in the circumstances, and in the absence of any readily available alternative reference at this stage of the year, I see no real option.

The Prime Minister raised the question of post-audits to check on the implementation of past reports. Post-audit has always been seen as part of the Section 11 process. The recent report on the Letter Post Service reviewed the extent to which the 1979 report under the Fair Trading Act on the Inner London letter post had been implemented (and reported commendable progress resulting in substantial economies).

Our stated policy is that each nationalised industry will have at least one major reference every four years but that no individual part of an industry will normally be referred more than once every four years. On that criterion, both the CEGB and British Rail commuter services fall for consideration for a post-audit and the NCB will become due in 1986.





However, given that the MMC's capacity is effectively limited to the six investigations a year which we have stated as our target, the inclusion of a post-audit investigation in the 1985 programme would mean dropping one of the other references and I believe it right on balance at this stage of the Section 11 rolling programme to give priority to industries which have not yet been reported on. But as the programme matures, the scope for re-references will increase and I certainly intend to include at least one re-reference in 1986. Moreover if, for any reason, one of the references proposed for 1985 has to be dropped in the course of the year, I would propose to fill the gap by adding BR Southern Region, a re-reference of which later in 1985 would be acceptable to Nicholas Ridley. As regards the other possible post-audit, Peter Walker has set out some cogent reasons for not re-referring the CEGB at present.

The Prime Minister also suggested that British Steel's investment planning and appraisal could form the subject of the MMC's investigation of the Corporation. We shall certainly bear this in mind in formulating the terms of this reference.

--- I now enclose a revised statement incorporating the Post Office postponement and Ian Gow's drafting suggestion. Your own suggested amendment is now unnecessary as we have a full programme. I would be grateful for any further comments by 12 November as I would like to make the statement as early as possible in the new Session. #B/E

I am copying this to the Prime Minister, members of E(NI) and to Sir Robert Armstrong.

*Yours sincerely*

*D. P. Cuthbert*

*P.F.*

ALEX FLETCHER

(Approved by the Minister but signed in his absence)



DRAFT WRITTEN QUESTION AND ANSWER

Q. TO ASK THE SECRETARY OF STATE FOR TRADE AND INDUSTRY IF HE WILL REPORT PROGRESS ON THE ROLLING PROGRAMME OF REFERENCES OF NATIONALISED INDUSTRIES TO THE MONOPOLIES AND MERGERS COMMISSION UNDER SECTION 11 OF THE COMPETITION ACT 1980

A. During 1984, reports were published on London Transport bus maintenance, the South Wales Electricity Board and the Post Office letter post service. I have received the Commission's report on the Yorkshire Water Authority and the revenue collection systems of four area electricity boards. These will both be published in due course.

The Commission are currently investigating British Rail property management.

I have concluded that, in the light of the government's proposals for radical reform of the bus industry and the introduction of competition that will result, it would not be appropriate to make the reference of an aspect of public sector bus services in Scotland that was announced as part of this year's programme.

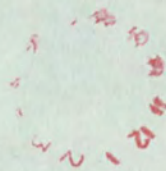
I have also decided in view of the increase in the Post Office's workload caused by the current industrial dispute at the Department of Health and Social Security to defer into 1985 the reference of Post Office counter services that was planned for this year.



Our policy of subjecting the public sector to independent external scrutiny will be carried forward by a full programme of investigations in 1985. An aspect of the British Airports Authority will be referred early in 1985. This will be followed in the course of 1985 by references of aspects of the North of Scotland Hydro-Electric Board, the South of Scotland Electricity Board, the British Steel Corporation and the water industry as well as the postponed reference of Post Office counter services. Details of each reference will be announced as it is made.



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-7 NOV 1984



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DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1P 3AG

6 November 1984

*Dear Peter*

PUBLICATION OF EFL PLANNING FIGURES

In your letter of 17 October to Peter Walker, you asked for views on the suggestion that future year external finance figures for individual nationalised industries should be published in the Public Expenditure White Paper.

I am not very sympathetic to this idea. I am doubtful whether it would be wise to put figures for the planning totals in future years in published form in the way envisaged in your table. The determination of EFLs for future years, beyond year 1, can only be an exercise in crystal gazing, and to split it between grants, internal resources and borrowing, is an exercise which I would not want to have to justify. We need to do our forward planning, but let us keep such subjective exercises where they should be, out of the public domain.

I have a much more serious objection to publication if our current negotiations about external finance, in relation to BAA (about which I have written separately) if

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the discussions result in negative planning figures for the later years of the IFR period. If we publish the planning figures in the White Paper, the US airlines would be almost certain to initiate arbitration proceedings with the object of securing a reduction in airport charges. Quite apart from the undesirable consequences any arbitration decision might have for public expenditure planning, I would need to consider the timing of having another row with the US authorities very carefully; especially when we are taking up with them the much more important question of the interaction between anti-trust actions and Bermuda 2.

For these two reasons, I cannot support the suggested publication of later years' external finance planning figures in the coming White Paper.

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

*Tom*

*Nicholas*

NICHOLAS RIDLEY

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-7 NOV 1984





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DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Andrew Turnbull Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

5<sup>th</sup> November 1984

Dear Andrew,

COMPETITION ACT 1980: REFERENCES OF NATIONALISED  
INDUSTRIES TO THE MONOPOLIES AND MERGERS COMMISSION

You copied to me your letter of 26 September to Callum McCarthy at the Department of Trade and Industry recording the Prime Minister's view that the 1985 MMC programme ought to include one post-audit to see that earlier MMC recommendations have been put into effect. If there are no other more suitable candidates, my Secretary of State would be content for a post-audit of the London and South East sector of British Rail to be included in the MMC's programme. In view of the fact that the MMC's investigation of BR's property activities will continue into the early part of 1985, it would be appropriate for an investigation of L&SE to begin towards the end of the year.

I am copying this letter to Private Secretaries to the members of E(NI) and to Richard Hatfield (Cabinet Office).

Yours,

*Dinah*

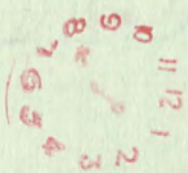
MISS D A NICHOLS  
Private Secretary



WAT IND Pt 9

DEPARTMENT OF TRANSPORT  
25 ABINGDON STREET LONDON SW8 5NR

Policy



- 7 NOV 1984



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DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) **5186**  
GTN 215)  
(Switchboard) 215 7877

From the Minister of State for Industry

Norman Lamont MP

**CONFIDENTIAL**

*NSP  
f*

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1

2 November 1984

*Dear Peter*

Thank you for your letter of 17 October to Peter Walker proposing publication of the nationalised industry external financing requirements in the second and third year on the Survey period.

While I appreciate the general considerations which you set out in favour of this change I think the disadvantages are much more cogent and we need to resist the TCSC's pressure.

Publication even in the least detailed form without any breakdown of internal resources and without distinguishing between borrowing from the Government and from the market would create very considerable problems. Furthermore the figures would raise questions from informed commentators which would be difficult to answer because of the underlying industrial and political sensitivities. For example, EFRs for BS are based upon an assumption about their rate of orders which is known only to us and to the Board of BS but which could become evident if the future EFRs are published. At this particular time, comparison would be made between the EFR for the second year and the EFL for the first year and there would be speculation on the allowance that has been made for the proceeds of sale of those yards which are to be privatised.

Above all I think it should be borne in mind that publication of EFRs would have an effect on what EFRs nationalised industry chairmen would be prepared to accept and this could make the EFR

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round even more difficult. In addition it could well be over sanguine to think that similar problems to those we have experienced this year will not recur in future years. On balance therefore I would be against giving any ground to the TCSC.

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

*Norman Lamont*

NORMAN LAMONT

NOV 1984



THUAIH





**CONFIDENTIAL**

2 MARSHAM STREET  
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

NBAM

JK

- 1 NOV 84

Dear Peter,

PUBLICATION OF FUTURE YEARS EFLs

In response to your letter of 17 October to Peter Walker, copied to members of E(NI), I am writing to say that I see no objection to publication of future years' EFLs for the water industry and BWB.

This is on the understanding that the figures for years 2 and 3 would be clearly indicated to be planning figures, not firm decisions; and that it is just a total EFL figure for water authorities as a whole (England and Wales) that will be published, not the individual authority figures. Our officials can discuss how much detail on internal resources is needed for the later years.

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

*Yours  
Patrick*

PATRICK JENKIN

**CONFIDENTIAL**

The Rt Hon Peter Rees QC MP



WAT (20)  
Bicy Party



**CONFIDENTIAL**



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

*WBP*

*AT  
25/10*

The Rt Hon Peter Rees QC MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

24 October 1984

*Beer*

PUBLICATION OF NATIONALISED INDUSTRY EFLs

In your letter of 17 October you proposed that the next Public Expenditure White Paper should contain a breakdown of EFLs for the second and third years of the IFR period broadly on the lines of that now given for the first.

I think this proposal is ill-timed. In particular I am not prepared to commit myself now to the publication of figures for the NCB for the second and third years at what is bound to be a time of more than usual uncertainty about the future course of the coal industry, and intensified scrutiny of everything we publish about it.

More generally, I think the proposal would tend to place a weight on the forecast EFLs which they cannot really bear. As you acknowledge, they are beset by trading uncertainties, and as such are qualitatively different from much of the rest of public expenditure.

All in all, I think we should rest on the present arrangements.

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

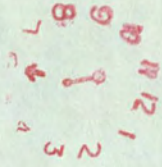
*Peter Walker*

PETER WALKER

**CONFIDENTIAL**



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25 OCT 1984





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NRAM  
 SEND  
 AT 22/10

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MBE MP  
 Secretary of State for Energy  
 Department of Energy  
 Thames House South  
 Millbank  
 London  
 SW1.

17 October 1984

*John Walker*

As we approach the end of the annual Investment and Financing Review, I have been giving some thought to the way in which we present nationalised industry financing figures for the three years of the Survey period. As you know, our current practice is to publish individual industry EFLs for the coming year in the Autumn Statement. These figures are then repeated, broken down into their detailed component parts, in the annual Public Expenditure White Paper (see Table 3.5 of Cmnd 9143, attached). The White Paper also gives information for years 2 and 3 but, except for fixed asset expenditure, only on an aggregated basis across all industries.

2 We are, however, coming under increasing pressure to publish individual industry EFLs, and their main components, for years 2 and 3. Thus, during an enquiry into negative EFLs last May, the Treasury and Civil Service Committee pressed Treasury officials to consider publishing such information in the future. I expect the Committee to return to this issue.

3 We have hitherto justified our present approach by reference to the uncertainty of future years' figures given industries' trading fluctuations and the fact that external finance is the residual between large offsetting flows. Whilst not denying their existence, we have taken the general line that individual industry totals for the later years represent planning assumptions and that it could be misleading to give details on an industry by industry basis. However, it is clear that this explanation is being increasingly questioned. The TCSC found it unconvincing; and with the publication in Part 2 of Cmnd 9143 of external finance totals broken down by Departmental programmes we are already in the position of having gone part of the way toward meeting the TCSC request. This move has encouraged outside commentators to speculate not always correctly, about the significance of the Departmental totals for individual industries.

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4 I believe that publication of future year EFLs could have other advantages. Such figures already circulate freely within Departments and are normally known to the industries themselves. If a Select Committee asked for the figures it would be difficult to refuse to give them - indeed, during the Energy Select Committee enquiry into pricing on 26 January, for example, BGC gave year 2 and 3 figures to the Committee. This sort of piecemeal disclosure cannot be prevented. And the more we defend withholding future year figures on the grounds of their uncertainty the more we call into question the reliability of the Planning Total itself. Conversely, publication would give industries additional encouragement to ensure that their planning is soundly based.

5 I recognise that publication would have some disadvantages. The publication of future years' figures could well reduce Departments' flexibility - in some cases the Government would not want to give such information where it revealed commercially or politically sensitive assumptions (e.g. the NCB is an obvious example where this could apply). It would be difficult, however, to be industry selective in the material published. If we decided to go ahead we should have to try to deal with sensitive cases as they arose but there could be difficulties.

6 Nevertheless, on balance, I am inclined to think that the arguments for publishing future year external finance figures by industry outweigh those against. I would envisage the new material following the lines of the attached table, although not necessarily giving a breakdown of industries' internal resources for years 2 and 3. I would not in any events, envisage implementing a decision to publish future year figures before the 1985 Public Expenditure White Paper. Before taking a final decision whether to go ahead I should welcome your and colleagues' comments.

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

*John ...*

PETER REES

CONFIDENTIAL



# Financing Requirements of the Nationalised Industries 1984-85 (Forecast)

Table 3.5

£ million cash

	Capital requirements			Internally generated funds					External Finance			
	Fixed assets in the UK <sup>(1)</sup>	Other <sup>(2)</sup>	Total	Current cost operating profit <sup>(3)</sup>	Interest dividends and tax <sup>(4)</sup>	Depre- ciation etc <sup>(5)</sup>	Other receipts and pay- ments <sup>(6)</sup>	Total	Govern- ment grants for revenue and capital purposes	Net borrowing from		Total external financing limit
										Government (NLF, PDC etc)	Market overseas and leasing	
National Coal Board	800	-57	743	-560	-490	668	22	-360	680	442	-19	1,103
Electricity (England and Wales)	1,265	-61	1,204	664	-433	1,590	123	1,944	8	-632	-116	-740
North of Scotland Hydro- Electric Board	48	6	53	33	-58	73	7	56	—	-2	-1	-2
South of Scotland Electricity Board	430	-39	391	106	-156	173	7	130	—	267	-6	261
British Gas Corporation	833	228	1,061	592	-111	640	40	1,161	—	—	-100	-100
British National Oil Corporation <sup>(7)</sup>	—	—	—	2	2	—	—	4	—	—	-4	-4
British Steel Corporation	200	163	363	41	-64	51	60	88	—	456	-181	275
Post Office	157	-41	116	114	-5	54	5	168	—	-29	-23	-52
National Girobank	10	-1	9	10	-6	7	—	11	—	—	-1	-1
British Airports Authority	128	5	133	53	-13	82	1	123	—	-6	16	10
British Railways Board	406	-175	231	-981	-71	165	182	-705	973	-20	-17	936
British Waterways Board	4	—	4	-37	-3	1	—	-39	42	1	—	43
National Bus Company	68	1	69	-60	-22	82	3	3	70	-15	11	66
Scottish Transport Group	20	1	21	-7	-2	14	1	5	16	-5	5	16
British Shipbuilders <sup>(8)</sup>	109	30	139	-84	-2	43	7	-36	30	145	—	175
Civil Aviation Authority	24	-3	21	5	-16	12	—	1	4	17	-1	20
Water (England and Wales)	778	-7	771	288	-592	736	53	485	38	328	-80	286
<b>Total<sup>(9)</sup></b>	<b>5,281</b>	<b>50</b>	<b>5,330</b>	<b>179</b>	<b>-2,042</b>	<b>4,391</b>	<b>511</b>	<b>3,039</b>	<b>1,861</b>	<b>856<sup>(10)</sup></b>	<b>-836<sup>(11)</sup></b>	<b>1,881</b>

(<sup>1</sup>)The capital value of leased assets is included.

(<sup>2</sup>)Includes fixed assets abroad, net investment in UK companies, net investment in long- and medium-term financial assets and changes in working capital (including stocks and work in progress).

(<sup>3</sup>)Some industries use historic cost as the basis of their main accounts. Because of this, and the exclusion of Government grants for revenue purposes, the figures in this column may differ from those for operating profit in those accounts. For BGC the operating profit is after charging £522 million for the gas levy.

(<sup>4</sup>)The total figure for interest alone is -£1,855 million. That for taxation is -£185 million.

(<sup>5</sup>)Includes cost of sales adjustment, monetary working capital adjustment and other items not involving the movement of funds.

(<sup>6</sup>)Includes proceeds from sales of fixed assets (where not credited to special sales of assets) and other capital receipts.

(<sup>7</sup>)Given the uncertainties of oil trading, BNOC's trading results are likely to fluctuate. Its capital requirements are expected to be substantially less than £1 million annually.

(<sup>8</sup>)No detailed figures are included in 1984-85 and subsequent years for Enterprise Oil, British Telecom and British Airways. The total for external finance here and in Table 3.1 for 1984-85 makes the same assumptions about these three industries as the Autumn Statement. Because of impending privatisation, these estimates are subject to considerable uncertainty as are the related estimates of the proceeds from special sales of assets.

(<sup>9</sup>)A further breakdown by sources of finance is shown in the 1984-85 column of Table 3.1.

(<sup>10</sup>)All BS figures are provisional.



11.8 OCT 1984







Minister for Housing and Construction

Department of the Environment  
2 Marsham Street London SW1P 3EB

Telephone 01-212 7601

Our Ref: J/PSO/16849/84

11 October 1984

*Dear Norman,*

COMPETITION ACT 1980: SECTION 11  
REFERENCES TO THE MMC OF NATIONALISED INDUSTRIES

I have seen a copy of your letter of 18 September to Nigel Lawson.

Apart from one point, I am content with the text of the answer which you propose to give on the rolling programme of references of nationalised industries to the Monopolies and Mergers Commission under Section 11 of the Competition Act, 1980. But I suggest that "a regional water authority" should be altered to "the water industry". The point is that we may want to refer one or more water companies, either on their own; or in association with a water authority (on the lines of the Severn Trent Water Authority, the East Worcestershire Waterworks Company and the South Staffordshire Waterworks Company).

I agree that we should not mention the possibility of referring the British Waterways Board. It could be a candidate, as you say, but a reference might simply deflect the Chairman and his senior managers from the task which he is tackling energetically, of converting the objectives we have set him into improving income and reducing losses in the short and longer term.

I am copying this to the Prime Minister, member of E(NI) and to Sir Robert Armstrong.

IAN GOW

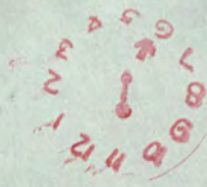
The Rt Hon Norman Tebbit MP



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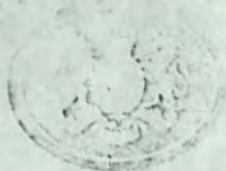
PTG

17 OCT 1984





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SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLEBANK LONDON SW1P 4QJ

01 211 6402

The Rt Hon Norman Tebbit MP  
Secretary of State for Trade and Industry  
1/19 Victoria Street  
LONDON  
SW1H 0ET

4 October 1984

*Norman Tebbit*

COMPETITION ACT 1980 SECTION II: NATIONALISED INDUSTRY REFERENCES  
TO THE MONOPOLIES AND MERGERS COMMISSION

I am content with the 1985 programme proposed in your letter of 18 September to Nigel Lawson.

The Prime Minister has questioned whether the 1985 programme should include one post-audit. I would be strongly opposed to selecting the CEGB for this for a number of reasons:

- (i) the 1981 MMC Report on the CEGB touched on sensitive areas of relationships between the NCB and British Rail to which it would be altogether counter-productive to draw attention in present circumstances;
- (ii) an announcement this autumn that we were proposing yet more external scrutiny of the CEGB would be bound to upset the moderate electricity unions, who believe strongly that the CEGB has had its fair share of external scrutiny already; it would also give ammunition to those in the industry who favour sympathetic action with the miners;
- (iii) I would not wish senior CEGB management distracted in any way from coping with the aftermath of the current situation;
- (iv) in any event, the major problem area identified by the MMC - investment appraisal methodology - has been tackled, and fully tested at the Sizewell Inquiry.

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

*Peter Walker*

PETER WALKER

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PRIME MINISTER

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Nationalised Industries Bill:

E(NI) (84)14

BACKGROUND

FLAGS A & B — The Sub-Committee decided at earlier meetings to bring forward legislation to codify and modernise the nationalised industry statutes, and to make fresh provision for the terms of appointment and dismissal of nationalised industry board members (E(NI) (83)5th Meeting, and E(NI) (84)1st Meeting). The Cabinet have agreed that such legislation should form part of the legislative programme for the 1984-85 Session of Parliament (CC(84)8th Conclusions, Minute 5).

FLAG C —

FLAG D — 2. When the Sub-Committee considered detailed proposals for legislation in June (E(NI) (84)3rd Meeting) some Ministers, notably the Secretary of State for Energy and Mr Channon representing the Secretary of State for Trade and Industry, expressed serious misgivings about the merits of the proposed Bill. They suggested that the proposals went further than E(NI) had previously agreed; and that they might be attacked by some as an erosion of the commercial freedom of the nationalised industries and used by others as the occasion for demanding still greater powers of direction, intervention and control. However, this view was not held by the Sub-Committee as a whole; and the Chief Secretary, Treasury was invited to proceed with drafting and to consult the Nationalised Industries' Chairmen's Group (NICG) about the Government's proposals. If those Ministers who had reservations about the Bill wished to argue against proceeding with it they could do so when the legislative programme for 1984-85 was finally decided in the context of the Queen's Speech.



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3. The Chief Secretary has consulted the NICG and has circulated a memorandum (E(NI)(84)14) reporting the outcome and making recommendations for further action.

Content of the Bill

4. The NICG have expressed strong opposition to the principle of the Bill, which they argue would fundamentally alter relationships and remove the status of the nationalised industries as independent commercial entities. They particularly object to the proposals to give Ministers powers to set statutory financial objectives, restructure balance sheets, and dismiss board members, especially as the proposals put to them envisaged that the powers would largely be exercised without Parliamentary procedures. They have also suggested that there are likely to be many difficulties of drafting detail, and have said that a good deal of time will have to be allowed for consultation on this. Their views are set out at length in the memorandum annexed to E(NI)(84)14.

5. The Chief Secretary proposes modifications to meet some of these points.

(i) He suggests that some powers (notably those enabling Ministers to restructure balance sheets and to require disposals and the like in the context of privatisation) should be made subject to Parliamentary procedure. He also envisages that similar concessions might be made during the passage of the Bill, for example on the power to set statutory financial objectives (paragraph 3 of E(NI)(84)14).

(ii) He suggests that the proposals on dismissal might be marginally revised (paragraph 4 of his memorandum).

Subject to these points he recommends that the Government should go ahead with the legislation as previously envisaged.





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Timetable and handling

6. The Chief Secretary suggests that he and his Treasury colleagues could not handle simultaneously a Nationalised Industries Bill and a Finance Bill. This suggests that the Nationalised Industries Bill should be out of Committee by early March 1985; this in turn suggests that the Bill should receive Second Reading before Christmas, with introduction in early December.

7. The Chief Secretary also requests the assistance of Ministers from sponsoring departments during the passage of the Bill.

MAIN ISSUES

8. The main issues before the Sub-Committee are as follows.

(i) Should the Government proceed with the Bill:

(a) broadly as the Chief Secretary proposes;  
or

(b) with more substantial modifications?

(ii) Is the timetable proposed by the Chief Secretary realistic?

(iii) What arrangements should be made for Ministers from sponsoring departments to provide support during the passage of the Bill, if the Government goes ahead with it?

Should the Government proceed?

9. There is a good deal of potentially contentious material in the Bill. Of the 27 Clauses and 9 Schedules in the print circulated with the memorandum, the following seem particularly likely to arouse lively debate:

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Clause 2 (power to set general financial duty)

Clause 10 (restructuring of balance sheets)

Clause 11 (clawback of revenue surplus)

Clauses 14 to 20 (privatisation; disposals; scope of activities)

Clause 22 and

Schedule 6 (appointment and dismissal).

10. The fact that legislative proposals are contentious is not, of course, itself an argument against proceeding with them. The proposals in the Bill will undoubtedly put financial relations between the Government and the nationalised industries on a better footing; make privatisation easier; and provide more appropriate powers of appointment and dismissal. They will help establish disciplines analogous to those in the private sector, though exact equivalence is naturally not feasible. Most members of the Sub-Committee are likely to regard these as solid gains. But there are potential dangers from a number of quarters.

(a) There is the risk that both existing boards and potential recruits to them will regard the legislation as putting so much power in the hands of Ministers as to deprive the boards of essential managerial freedom. It may be possible to reassure them on the lines suggested in paragraph 6 of E(NI)(84)14, and by pointing out that the new powers relate to broad framework, not day-to-day management. Nevertheless, there is a difficulty: if too much weight is put on the argument that most of the Bill is 'simply putting existing practice into statutory form', the reply will be that in that case there is no justification for going to the trouble of legislation.





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(b) Consumer interests may criticise the power to set statutory financial objectives, restructure balance sheets, and clawback revenue surpluses, as cover for excessive price increases and depriving the industries of money which should be used for the benefit of their customers.

(c) Backbenchers may press for all Ministerial powers to be made subject to Parliamentary procedure; they may also stage a re-run of the debates of 1983 on the proposals in Mr St John Stevas's Bill to make the industries directly accountable to Parliament and their affairs subject to scrutiny by the Comptroller and Auditor General.

There may be a risk that unwelcome amendments will be carried in Standing Committee, or be avoided only by the giving of restrictive undertakings by Ministers. The Sub-Committee may wish to consider how best to reduce such risks.


#### Possible changes to the Bill

11. Although we have had no indication of specific points likely to be raised in departmental briefing, some members of the Sub-Committee might suggest changing the proposals in the Bill, particularly as regards the more controversial sections. It will be necessary to balance the benefits that such changes might bring in terms of better relations with the industries and an easier passage for the Bill against the risk that the Bill may be emptied of useful content.

#### Timetable

12. The Sub-Committee will wish to consider whether the timetable outlined in E(NI)(84)14 is realistic. It allows, as the Chief Secretary admits, little time for detailed consultation with the NICG. Of course, the Government can introduce the Bill when it wishes, no matter how many points are in dispute with the NICG. But the effect of doing so





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may be to prolong Committee stage: the industries are well able to formulate detailed amendments and secure and brief backbench sponsors.

13. It is possible, though perhaps unlikely, that if the timetable does seem likely to be very difficult, the Sub-Committee may regard that as an argument against proceeding with the Bill, at least in the next Session.

Support for Treasury Ministers

14. It does not seem appropriate to discuss in detail the arrangements for providing Treasury Ministers with support from other departments during the passage of the Bill. You will probably wish to confine the discussion to noting that such support will be needed, asking sponsoring Ministers for their cooperation, and inviting the Chief Secretary to discuss the details with them and the business managers.

HANDLING

15. You will wish to invite the Chief Secretary, Treasury to introduce his memorandum. Thereafter it will probably be convenient to divide the discussion into two main parts:

(i) the content of the Bill and whether to go ahead with it; if the Sub-Committee should decide that it is not worth going ahead, further discussion will be unnecessary. If they wish to go ahead, it will be appropriate to go on to discuss -

(ii) the timetable.

The main contributors to the first part of the discussion will be the sponsoring Ministers or their representatives (Secretaries of State for Energy, Scotland, Trade and Industry and Transport, and the Ministers of State from the





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Department of the Environment and the Welsh Office).  
The Chief Whip will be able to advise on Parliamentary opinion.

The Chief Whip is also likely to be the main contributor to any discussion of the timetable.

CONCLUSIONS

16. You will wish the Sub-Committee to reach conclusions on the following.

(i) Should the Government go ahead with the Nationalised Industries Bill

- broadly on the lines proposed by the Chief Secretary; or
- with modifications?

(ii) What should be the timetable for the Bill?

(iii) What arrangements, in broad terms, should be made for providing Parliamentary support to Treasury Ministers during the passage of the Bill, if it goes ahead?

17. It will be convenient to report the Sub-Committee's conclusions on (i) above to the Cabinet on 4 October when they consider the Queen's Speech on the Opening of Parliament  
FLAS F — (see paragraph 2(a) of C(84)24).

*PLG*  
P L GREGSON  
Cabinet Office.  
1 October, 1984



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1 October 1984

PRIME MINISTER

NATIONALISED INDUSTRIES BILL

The Nationalised Industries Bill sets out important provisions to standardise accounting, to give powers to remove members and chairmen, to facilitate the sale of parts of the businesses, and to enable Ministers to set proper borrowing and financial targets.

The Bill will be opposed by the Nationalised Industries Chairmen's Group. They are annoyed at the tight timetable for consultation, and are attempting to represent the Bill, with the help of their friends in the Alliance and Labour Parties, as another attack upon nationalised industry autonomy. The Treasury have worked out a strategy for arguing the Bill through the Commons, and have a fallback position for the opposition to setting financial targets, and to the provisions over dismissal if opposition becomes too strong.

Our one caveat is that the Treasury will have to mobilise support in sponsor departments, and win the argument that this is in the main a tidying up measure with no deep constitutional significance. If necessary, concessions can be made by toning down the dismissal provisions a little and

The Chief Whip is sceptical about the strategy and is talking the Chancellor so privately before E(N1)

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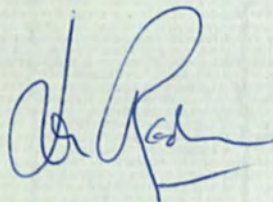


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by incorporating some power for Parliament in connection with targets.

The Bill should be supported and every encouragement given to the Treasury to meet the tight timetable.



JOHN REDWOOD

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CNS



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Tebbit MP  
Secretary of State for Trade and Industry  
1-19 Victoria Street  
London SW1H 0ET

1 October 1984

**COMPETITION ACT 1980, SECTION 11:  
NATIONALISED INDUSTRY REFERENCES TO THE  
MONOPOLIES AND MERGERS COMMISSION**

Thank you for your letter of 18 September to the Chancellor.

2 It is, of course, very disappointing that the 1984 programme has now been reduced to only four references. I agree with you that we need to make every effort, therefore, to have a full programme of six references in 1985. Although I accept that we should await receipt of the British Waterways Board corporate plan next spring before deciding whether to refer that body I wonder whether your proposed statement might say (penultimate sentence): "A further reference may be added in due course". This would reinforce our commitment to a full programme whilst leaving options open. Otherwise I am content.

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

PETER REES



- 1 OCT 1984

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NEW ST. ANDREWS HOUSE  
EDINBURGH EH1 3SX

The Rt Hon Norman Tebbit MP  
Secretary of State for Trade and Industry  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON  
SW1H 0ET

28. September 1984

Dear Norman,

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COMPETITION ACT 1980, SECTION 11: NATIONALISED INDUSTRY  
REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION

Thank you for sending me a copy of your letter of  
18 September to Nigel Lawson.

I confirm that I am content with your proposals and the  
terms of the Written PQ.

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

Yours we,

George



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## PROPOSED NATIONALISED INDUSTRY LEGISLATION

### OBSERVATIONS OF THE NATIONALISED INDUSTRIES' CHAIRMEN'S GROUP

1. As requested by the Chief Secretary in his letter of 6th August, this memorandum sets out the "main comments" of the Chairmen's Group on the proposals for changes in the Corporations' statutes outlined in that letter and its attachments. However, the time which has been allowed for this response has been patently inadequate, and the Chairmen's Group therefore reserves the right to submit further observations if it sees need.

#### A : THE CHAIRMEN'S GROUP'S BROAD STANCE

2. The combination of the deplorably short time allowed for consultation and the fact that Ministers have not chosen to put forward any general case in favour of the course which they are considering has left the Chairmen's Group with little alternative but to concentrate on analysing and reacting to the specific suggestions prepared by officials. It very much regrets that necessity. If it had been given an opportunity to discuss the general issue with Ministers before all this detailed work by officials was set in hand, it would have been very ready to make a much more positive contribution to the common pool of ideas on ways of improving the framework of statutory and non-statutory arrangements within which the Corporations operate.
3. With regard to the particular suggestions which officials have put forward concerning both the form and the content of possible new legislation, the discussions which have taken place within individual Corporations and in the Chairmen's Group have revealed very deep and very wide-ranging concern. Two points in particular have stood out :-
  - (a) In view of the Government's declarations of policy towards the Corporations, Chairmen had naturally assumed that any new nationalised industry legislation would primarily be directed towards ways of achieving the central objective which Ministers and Chairmen jointly share, viz. the development of efficient, commercially-oriented and increasingly profitable businesses. In practice, however, this is clearly not the case. The suggestions advanced by officials are also entirely shaped by a wish to strengthen Whitehall's control over the activities of the businesses and by the dictates of administrative convenience. There is no sign whatsoever of any real concern to release the energies of the enterprises, so as to make them better able to respond to the dynamics and realities of the market place. As a result, as Mr. Dent's letter of 17th September indicated, every single Corporation represented at the recent meeting of the NICG Council was united in expressing "deep concern about the likely effects of the proposals on the vitality and effectiveness of the businesses".
  - (b) The Chairmen's Group is unanimously of the view that these suggestions go far beyond what is necessary to achieve the relatively limited objective of Ministers, as stated in the



Chief Secretary's letter of 6th August, viz. that advantages would arise "if the statutes applied to nationalised industries could be made as clear as possible". What officials have proposed is, unquestionably, very much more than a simple tidying-up exercise. If implemented, their suggestions would significantly alter the existing relationship between the Government and the generality of the Boards.

4. As the Chief Secretary has explicitly assured us, however, such a significant change in the existing relationship is not something which Ministers have it in mind to bring about. The Chairmen's Group wishes, therefore, to urge Ministers to reconsider the wider implications, including both the industrial and political implications, of the course of action suggested in the notes annexed to the Chief Secretary's letter.
5. For their part, the Chairmen unanimously believe that those proposals run contrary to the broad thrust of Government policy towards the public sector industries, as they understand it, which is to encourage and assist the Corporations to develop their commercial vigour and effectiveness as business enterprises to a point where they can either pass easily into the private sector, in those cases where their overall circumstances make such a change appropriate, or make a highly positive contribution to public sector activities, in those cases where their overall circumstances dictate that they should remain in public hands. In particular, they believe that what is envisaged would fundamentally undermine the position of the Boards, which are the only bodies which can lead the Corporations forward to that point. The Chairmen's Group very much hopes, therefore, that the reconsideration which it advises Ministers to undertake will lead the Government to decide not to go forward on the basis of the suggestions about the form and content of any new legislation appended to the Chief Secretary's letter.
6. If Ministers were nevertheless to choose to proceed in accord with those suggestions, it is clear that much more time will be needed than was envisaged in the Chief Secretary's letter if the resulting draft legislation is to receive the full consideration which its importance requires. And that judgement, it should be noted, solely reflects the very extensive reservations and objections already raised by the Corporations' experts in the light of their detailed analysis of the outline suggestions annexed to the Chief Secretary's letter. It takes no account of the additional time likely to be needed to resolve the many further difficulties which must be expected to emerge if those outline suggestions come to be translated into a draft Bill - a matter on which the Corporations' lawyers are expressing considerable concern.

#### B : UNDERLYING CONSIDERATIONS

7. The rest of this memorandum sets out the considerations which have helped to shape the Chairmen's Group's broad stance as outlined above, beginning with those of a general character and moving on to those bearing on particular aspects of the new proposals.

#### A Single Statute ?

8. The Corporations differ widely, in a variety of ways; and all Governments have hitherto acknowledged that diversity by equipping



them with individual statutes, tailored to their particular situations. What now appears to be envisaged, however, is the imposition of a single set of legislative provisions on all Corporations, irrespective of their wide-ranging differences. Since this represents a marked departure from long-established practice, it is surprising that the Chief Secretary's letter of 6th August makes no attempt to present any substantial case for the change.

9. This proposal has given rise to considerable anxiety. All of the Corporations are very doubtful indeed whether any one overall Bill - and particularly one bearing on such major aspects of their affairs - could adequately comprehend the full complexity of their individual circumstances. Some of the Corporations feel strongly that any common set of provisions cannot help but fail to encompass their special peculiarities: this applies, for example, to matters such as the banking operations of the Post Office's National Giro and the regulatory activities of the Civil Aviation Authority. And there is wide concern about the unfortunate impression which is conveyed that Whitehall is attaching greater weight to administrative convenience than to the need to comprehend industrial and commercial realities in all their awkward diversity.
10. It is, of course, true that the Chief Secretary's letter of 6th August indicates the Government's intention that any overall legislation should allow "sufficient flexibility to cater for differing circumstances". The notes appended, however, do not explain how this would be done, nor how extensive the permitted variations might be. Until these and similar issues have been addressed in sufficient detail for an assessment to be made, the Chairmen's Group's considerable anxiety about this unification proposal must remain. [See also paragraph 2].
11. That concern does not extend to the suggestion that a single nationalised industry Bill might periodically be introduced which would be designed to bring together a variety of legislative proposals, applying to a number of different Corporations, for which it would be difficult to find adequate Parliamentary time if they had to be brought forward separately.

#### Significant Change in Relationships

12. The Chairmen's Group has never stood on the pure Morrisonian concept of an arms-length relationship between Ministers and the Boards, but has always acknowledged that the Government has a legitimate claim to be directly involved to some extent in the direction of the Corporations' affairs. In our view, any control structure for the public sector Corporations must accommodate both the Government's legitimate wish for involvement and the Boards' essential need for sufficient freedom of action to be able to maintain the vitality and commercial thrust of their businesses; and the best control structure is the one which is most successful in maintaining a proper balance between the two.
13. It is the considered view of the Chairmen's Group, and of the generality of Boards and non-executive Members who have so far been consulted, that the suggestions now advanced by officials,



taken as a whole, would bring about a significant shift in the existing balance of the control structure. Specifically, those suggestions would augment Ministerial powers to an extent which would appreciably reduce the responsibility and the independence of most of the Boards.

14. In the financial field in particular, the powers with which it is suggested that Ministers should be endowed are so considerable that, if the new proposals were implemented, it is questionable how long the Boards could reasonably be asked to continue to carry responsibility for the financial results of their businesses. For example, if a Minister were to have the right to fix financial targets, external financing limits and performance targets for a Corporation without the necessity to secure the agreement of its Board to the objectives set, and if in addition he were to have far-reaching powers vis-a-vis the capitalisation of the Corporation's reserves, it would be of very little value to the Board concerned to be told that it had freedom of action under statute vis-a-vis the determination of its prices, since the constraints to which it was subjected would effectively negate that supposed right. All this is especially the case since there seems to be no suggestion that Departments should accept financial responsibility for any adverse consequences of their interventions, and make offsetting compensatory payments to the Corporations concerned, as was agreed in principle and largely negotiated in practice when the last Labour Government proposed to equip Ministers with the power of Specific Direction in 1978-79.
15. It may, of course, be argued that Chairmen need not worry overmuch about such potential developments because, even if the powers are taken, "of course, they really won't be used". But even if this bland assurance were accepted in terms of present circumstances, Chairmen have also to consider the future; and prudent Ministers may wish to consider how this armoury of far-reaching powers might be deployed by some successor-Administration of a markedly-interventionist mien.
16. The substantial derogation from the authority of the Boards which the Chairmen believe that the new proposals would bring about would be bound to produce wholly-deleterious consequences in terms of the effectiveness of the public sector businesses. There is not space here to address the many aspects of this point in detail, though the likely impact on Ministers' ability to recruit or retain persons of ability and independence of view to serve as Board Members is taken up in paragraph 27 below. The central fact, however, is that an able and well-led Board plays a crucial part in ensuring success in public as in private sector businesses. It is the power house of the enterprise; and if its authority is undermined in the sight of those whom it has to motivate and energise, the business will begin progressively to lose both direction and vigour. To the extent that Ministers choose to support the present proposals - which are predominantly concerned to constrain the authority of the Boards, and not at all to encourage and uphold it - to that extent will they cut across the Government's clear wish to increase the competitiveness and profitability of the public sector businesses.
17. In considering all this, the Chairmen's Group is reassured to a degree by the Chief Secretary's undertaking that "it is not intended that the legislation would result in any significant change in the existing



relationship between Government and the industries". In practice, however, the gap between that welcome statement of Ministerial intent and the likely consequences of the actual proposals being advanced by officials is very wide indeed. In the view of the Chairmen's Group, this mis-match between aims and means powerfully reinforces the call made to Ministers in paragraph 4 above to reconsider their course of action.

#### Effects on Consumers

18. There is a growing tendency on the part of consumers to allege that the Government is seeking to use some of the Corporations as something akin to tax-gathering agencies. If, as is suggested, Ministers' powers vis-a-vis financial objectives are substantially enhanced, it seems probable that this concern will be intensified. Much the same applies to the suggestion that Ministers should assume power to require reserves to be converted into various forms of State-owned capital liabilities, since consumer bodies are already claiming that those reserves have been largely built up by what they regard as "enforced contributions from customers".

#### Effects on Privatisation

19. A number of Chairmen who are actively involved in preparations for privatising parts of their businesses believe that the proposals under the Restructuring and Asset Disposals heading which would require Corporations to seek the consent of the Treasury as well as the approval of their own Secretaries of State before disposing of equity, would unnecessarily complicate and delay their programmes. More generally, the points made in paragraph 16 above about the impact on the authority of the Boards of the proposals made under the Financial Objectives heading bear directly on the Privatisation process as a whole. A Board which is fully responsible for the conduct of its company's affairs is a prime characteristic of a private sector company; and in this sense, the suggestions advanced by officials again run contrary to a major strand in Government policy.

#### Effects on Union Co-operation

20. Though there are certainly public sector Unions whose mode of behaviour rightly provokes strong criticism, it is by no means the case that all the Unions operating in the public sector industries have been unduly avaricious on pay and unduly hostile towards measure to improve productivity. In the electricity supply industry, for example, the staff, the manual workers and their Unions have all identified strongly with the industry, and have collaborated over many years in steps to improve its performance; and the gas industry, the steel industry of late and many others have similar records. There is strong concern lest the introduction of the Ministerial powers now suggested should lead these Unions to the view that "their industries" are likely to be manipulated for governmental purposes, since this could bring their crucial readiness to collaborate under great strain. Moreover, Ministers may wish to consider carefully the implications of the new proposals which are before them in terms of their much more direct exposure during future pay negotiations and industrial disputes to the Unions' charge that the financial objectives which they have been able to



impose, without any necessity to secure the approval of the Boards concerned, have "marked the boss's cards" within very close limits indeed.

#### Effects on Parliament

21. Recent years have seen a growing desire amongst back-bench Members of Parliament to strengthen their understanding of the Corporations' affairs. Against this background, it is worth noting that the effect of attempting to apply a common set of legislative provisions to all Corporations will be to distance back-benchers still further from the Corporations' affairs. This is because such wide-ranging powers, intended for common application, will necessarily have to be widely drawn and largely permissive in character; and their application to particular Corporations will then depend on initiatives by Ministers rather than on primary legislation by Parliament itself. This may provoke especial concern in connection with some of the provisions under the Restructuring and Asset Disposals heading which, as they stand, would appear to allow the privatisation of parts of the Corporations' businesses without any need to consult Parliament. In their totality, the new proposals envisage such an accretion of power in the hands of Ministers that, if it were decided to implement them, they should be amended to require recourse to the positive Parliamentary approval procedure before they were deployed.

#### Impact of Specific Proposals

22. It has been agreed within the Chairmen's Group that it is for individual Corporations to analyse in detail the specific proposals set out in the notes appended to the Chief Secretary's letter, in the light of their own particular circumstances, and to pass their observations direct to their sponsor Departments. There are, however, four aspects of the proposals which have attracted such considerable comment during the NICG discussions as to warrant special mention here.
23. Conflict of Statutes Though it is envisaged that the proposed new legislation should repeal or amend all existing statutes in so far as they contain directly overlapping provisions, it remains the case that many of the existing statutes will continue in being to some extent. Thus, the new measure will have to be grafted onto existing stock. There is concern that this process could throw up conflicts of statutes, e.g. as between existing clauses which require Boards to have regard to "the public interest" or to specific social objectives when taking their decisions, and new clauses which appear designed to make financial obligations paramount. The papers so far available to NICG do not indicate how such conflicts could be resolved.
24. Financial Objectives. It is perhaps arguable that the gap between current practice and formal statutory provisions vis-a-vis the setting of financial targets, EFLs and performance targets has become unduly wide, and that some action is required to bring the two rather closer together, if only to protect the Corporations and the Departments against actions through the Courts. Nevertheless, as was made clear in paragraphs 12-17 above, the Chairmen's Group is very disturbed indeed by the extent of the powers which it is now suggested should be given to Ministers in this regard, and by the



implications of such steps vis-a-vis the balance of relationships between Ministers and the Boards. In this connection, the proposed shift from proceeding in these areas by way of agreement to proceeding by way of imposed decisions gravely aggravates the Chairmen's anxieties.

25. Allocation of Surplus Funds. The Chairmen have very strong objections indeed to the main suggestions advanced under this heading, (which appear, incidentally, to go well beyond anything which has yet been found in existing statutes). Their anxieties are primarily directed to the basic principles involved in these far-reaching, and potentially highly damaging, proposals. In addition, however, attention has been drawn to rather more specific, but still very important points, such as the need to avoid capitalisation of apparent reserves created by CCA conventions, and the need to safeguard the financial viability of those Corporations whose industrial circumstances are such that their provisions are very high in relation to assets. The Chairmen's Group acknowledges the need to cope with the emerging situation whereby some Boards have become, or are just becoming, debt free; but there is no validity at all in the suggestion that what has been proposed under this heading represents no more than a convenient way of dealing with that issue.
26. Terms of Appointment of Board Members. The proposal to give Ministers the power to dismiss Chairmen and members at will and without explanation is altogether objectionable, and the Chairmen's Group is unanimously opposed to it. There are many other important points which the Corporations will wish to make to their sponsor Departments regarding the proposals under this heading, especially as regards the situation of individual Members, with the grossly inadequate nature of the compensation proposals being amongst them. However, the dismissal proposal-which aims to give Ministers an unrestricted "hire and fire" power which no other employer in Britain would nowadays attempt to claim-is more fundamental. It strikes at the heart of the concept of a balanced relationship between Ministers and the Boards, and would tend to create instead a situation of dependence.
27. All this ties back directly to the anxieties expressed in paragraph 16 above regarding the impact of the current proposals on the authority of the Boards, and the impact of any derogation from the Boards' authority on the effectiveness of the businesses. If the powers now proposed under the Appointments heading were to be implemented, it would undoubtedly become very much more difficult for Ministers to recruit persons of standing to serve on the Boards, or to retain existing non-executive Members, especially since the other proposals, if enacted, would be reducing the role of the Boards in many ways at the same time.
28. Looking ahead, whatever the intentions of present Ministers may be, the proposal that they should have power to dismiss Members at will and without explanation is bound to raise fears about the progressive politicisation of the Boards. This is a situation which has had disastrous effects on the effectiveness of public sector enterprises in other countries, but which Britain has always hitherto escaped. In this context, as in many others, the potential effect of the proposals on the Executive Members of the Boards gives rise to special concern.





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The Rt Hon Norman Tebbit MP  
Secretary of State for Trade  
and Industry  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON SW1H 0ET

27. September 1984

*Dear Norman*

NI REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION

Thank you for sending me a copy of your letter of 18 September to Nigel Lawson. I am content with the terms of your proposed statement.

I am copying this to the Prime Minister, members of E(NI) and Sir Robert Armstrong.

*Yours*

*Nicholas*

NICHOLAS RIDLEY



File

SLHAEL



10 DOWNING STREET

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DOE

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From the Private Secretary

26 September 1984

COMPETITION ACT 1980: SECTION II REFERENCES OF  
NATIONALISED INDUSTRIES TO THE MONOPOLIES AND MERGERS  
COMMISSION

BF  
②

The Prime Minister has seen your Secretary of State's minute of 18 September to the Chancellor of the Exchequer. She has asked whether the procedures for selecting industries or aspects of them for reference to the MMC give adequate weight to follow-up action. There are now a number of reports, many of which revealed quite serious shortcomings. She wonders, therefore, whether the 1985 programme ought to include one post-audit to see that earlier MMC recommendations have been put into effect. Possible candidates would be the CEGB and Southern Region or, in another year the NCB.

She has noted that your Secretary of State has proposed "an aspect of British Steel". One possibility would be the management of its' capital programme. She has commented that like the NCB, BSC invests and loses money on a large scale. Such a study could consider how investment proposals are related to markets, how they are approved by the Board and Ministers and whether there are post-audit procedures in BSC issues.

10



I am copying this letter to Private Secretaries to  
Members of E(NI) and to Richard Hatfield (Cabinet Office).

Andrew Turnbull

Callum McCarthy Esq  
Department of Trade and Industry



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Prime Minister <sup>(1)</sup>  
Agree to Owen's suggestions

AT

25/9

25 September 1984

PRIME MINISTER

Yes - could we put it tactfully to DTI

COMPETITION ACT 1980: SECTION 11 REFERENCES OF NATIONALISED  
INDUSTRIES TO THE MONOPOLIES AND MERGERS COMMISSION

Norman Tebbit has written to colleagues to outline a programme of references for 1985: an aspect of British Airports Authority, two Scottish Electricity Boards, an aspect of British Steel, and a Regional Water Authority (plus, possibly, British Waterways Board).

Two aspects of this programme are worthy of comment:

1. Focus. It is our impression that each nationalised industry "gets its turn" in the programme, irrespective of size. This approach makes it clear that no industry is to be excluded. We see good reason, for example, to try to bring the British Waterways Board into the 1985 programme. However, it is as important to get the right focus on the industries which account for the most resources - electricity, gas, coal, BSC - because mismanagement in these industries can cause damage to the economy. The BSC reference must be a substantial one.
2. Follow-up. Do these reports lead to effective action? Our impression is that the majority of the reports are excellent yet even their most damaging criticisms lead

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to very little visible action which we can point to as examples of steps to improve management in the public sector. For example, how has the NCB responded to the MMC's criticism that ". . . NCB's plans have been designed to support submissions for investment finance. They have not permitted assessment of whether funds provided in the past have been well spent, nor have they provided estimates of the return promised on new capital" (MMC Report on NCB, 1983, p. 375).

The Report also noted (p.377) that "one third of NCB's expenditure on major capital projects has gone into collieries which are either unprofitable or of doubtful profitability". Is this improving?

We suggest that there is a need for the MMC to carry out post-audits to check on progress since its first report, particularly where these reports revealed serious weaknesses or problems, such as restrictive practices (Southern Rail, postal services) or poor investment appraisal (NCB, CEGB).

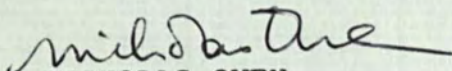
We recommend that:

1. The 1985 programme should include one post-audit. This would establish the point that MMC reports are intended to stimulate action. CEGB, Southern Rail and NCB are prime candidates.



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2. The "aspect of BSC" should be the management of the capital programme. Like the NCB, BSC invests and loses money on a grand scale. It is not clear whether or how their proposals are related to markets, whether they are approved by Ministers, or whether they are post-audited in BSC itself.
- 

  
NICHOLAS OWEN

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NBPM  
AT 19/9

~~CEASO~~

cc Press Office

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Tebbit MP  
Secretary of State for Trade and Industry  
Department of Trade and Industry  
1 Victoria Street  
London  
SW1E 6RB

19 September 1984

*For Norman*

**NATIONALISED INDUSTRIES BILL: NICG CONSULTATIONS**

I am meeting representatives of the Nationalised Industries Chairmen's Group on Friday to discuss their comment on the Nationalised Industries Bill. I enclose a copy of a letter dated 17 September that I have received from the Group and you will see that at this stage the Chairmen are expressing general concerns rather than commenting on the effect of individual proposals. I intend to reassure them, to restate the Government's case for proposing the Bill, make clear to the Chairmen that it is not meant to herald a far-reaching change in relationships, and listen to their detailed comments. We obviously need to present a united front on all this and my office is making arrangements for you and other sponsor colleagues either to attend or be represented.

2 I have been reconsidering how the various powers in the Bill might be implemented in order to allow sponsor Ministers maximum flexibility and yet not allow opponents to argue that too much power is being placed in the hands of Ministers. The enclosed table sets out my preliminary conclusions although during the passage of the Bill we may clearly need to reassess the degree of Parliamentary involvement that is necessary. Treasury officials are in touch with Departments about the detail of the provisions and I would be grateful for any comments that you and others have.

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

*Peter Rees*

PETER REES



# Nationalised Industries' Chairmen's Group

Chairman  
John Dent CBE

Hobart House  
Grosvenor Place  
London SW1X 7AE

415  
9

CHIEF SECRETARY  
01-235 2020  
REC 16 SEP 1984  
17 September 1984

The Right Hon. Peter Rees QC MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1P 3AG

ACTION: MR G. M. STONE  
COUNCIL: PPS, PS/ST, PS/MT, PS/EST  
SIR R. DEARING, MR BULLOCK, MR MONCK, MR C. P. W.  
MR MAHAN, MR HUSTON, MR P. RIE, MR LEBSON  
MR WILSON, MR PALMER, MR KAUFMAN,  
MR RIDLEY, MR HOBBS, MR PORTILL  
MISS J. WHELDON (F.S.L.)

Dear Mr Rees

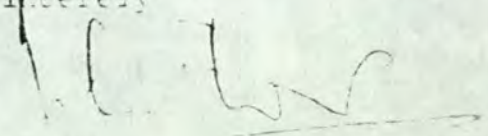
Proposed Nationalised Industry Legislation

In my interim reply to your letter of 6 August 1984 about the Government's proposed nationalised industry legislation, I said that the Chairmen's Group would not be able to comment substantively until all the Chairmen had come together to discuss your proposals. That condition was satisfied last Friday, when the NICG Council met, since all but one of the Corporations affected by your proposed Bill were represented. Even so, two reservations remain: not all the Chairmen have yet been able to sound the opinions of their Boards; and as regards the detailed aspects of your proposals, analysis is still under way.

Subject to those reservations, I shall be in a position to let you and your colleagues have a written statement of the Chairmen's Group's views on your proposals when we meet next Friday afternoon, 21 September 1984. I shall be accompanied by Sir Ron Dearing, [Post Office], Mr Robert Haslam [British Steel], Sir Denis Rooke [British Gas] and probably by Mr Donald Miller [South of Scotland Electricity Board], together with Mr Jim Driscoll, our Director.

It may be helpful, however, if I let you know in advance the general tenor of Friday's discussion. With the Corporations' situation and Statutes differing widely, the emphasis placed on the different aspects in the statements made to the Council naturally varied in some respects, but the most striking feature was the degree of consensus which they revealed. Three broad points in particular stood out. Despite your assurance to the contrary, every single person present took the view that the proposals outlined in your letter are of far-reaching significance in terms of relations between Ministers and the generality of the Boards. They were unanimous in expressing deep concern about the likely effects of the proposals on the vitality and effectiveness of the businesses. All those involved felt strongly that, as a minimum, more time would be needed than was envisaged in your letter if the proposals were to receive the full consideration which their importance requires.

Your sincerely





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NATIONALISED INDUSTRIES BILL

Power

Suggested Procedure

Precedent (differences in procedure shown, if any)

Borrowing and Guarantees

1. to permit borrowing from the Secretary of State or, with his approval, from the market and overseas

none needed

Coal Industry Act 1965 s.1(2)  
 Coal Industry Act 1972 s.4  
 Coal Industry Act 1977 Schedule 1(1)  
 Electricity Act 1957 s.15  
 Statutory Corporation (Financial Provisions) Act 1974 s.4-5 and Schedule 2  
 Electricity (Scotland) Act 1979 s.27  
 Gas Act 1972 s.17  
 Petroleum and Submarine Pipelines Act 1975 s.16  
 Iron and Steel Act s.16  
 BT Act 1981 s.26(BT) s.73(PO)  
 British Airways Board Act 1977 s.5  
 Airports Authorities Act 1975 s.3  
 Transport Act 1962 s.19  
 Transport Act 1968 s.27(1)  
 Aircraft and Shipbuilding Industry Act 1977 s.11  
 Civil Aviation Act 1982 s.10  
 Water Act 1973 Schedule 3(34)

2. to prohibit an industry lending to a subsidiary

by direction

Coal Industry Act 1973 s.2(5) as amended  
 [consent required to lend to subsidiary].

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<u>Power</u>	<u>Suggested Procedure</u>	<u>Precedent (differences in procedure shown, if any)</u>
3. to agree terms and conditions of loans	none needed	BT Act 1981 s.28(2), Petroleum and Submarine Pipelines Act 1975 s.7(3) Gas Act 1972 s.20(2) Iron and Steel Act 1982 s.17(2) Civil Aviation Act 1982 s.12(3) Airports Authority Act 1975 s.6(2) Aircraft and Shipbuilding Act 1977 s.12(1) Electricity and Gas Act 1963 s.2(3) Coal Industry Act 1980 s.2(2) Post Office Act 1969 s.37(2) Water Act 1973 Sch 3 para 35(3) Transport Act 1962 s.20(2) British Airways Board Act 1977 s.6(2)
4. to specify transactions to be regarded as borrowing and how amount is to be calculated	by SI	New
5. to require industry to obtain consent to guarantee, or for its subsidiaries to guarantee, third party borrowing	none needed	Coal Industry Act 1973 s.2(6) and (7)
6. to change borrowing limit subject to statutory maximum	by SI (affirmative)	Oil and Gas (Enterprise) Act 1982 s.7 Iron and Steel Act 1982 s.19(2) Gas Act 1972 s.19(2) Aircraft and Shipbuilding Industries Act 1977 s.11(6) and 7 BT Act 1981 s.27(2) and s.74(2) LRT Act 1984 s.22(1) (SI affirmative but no ceiling) Water Act 1973 s.34(5) Coal Industry Act 1977 s.1(1) Electricity (Scotland) Act 1979 s.29(1) Electricity Act 1962 s.19(3)



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<u>Power</u>	<u>Suggested Procedure</u>	<u>Precedent (differences in procedure shown, if any)</u>
7. borrowing limits to include borrowing by wholly owned subsidiaries and borrowing by third parties which the industry has guaranteed	none needed	Coal Industry Act 1977 schedule 1(1) Gas Act 1972 s.19 Petroleum and Submarine Pipelines Act 1975 s.6(3) Oil and Gas Enterprise Act 1982 s.7 Iron and Steel Act 1982 s.19 BT Act 1981 s.27(BT) s.74(PO) Aircraft and Shipbuilding Industry Act 1977 s.11(7)
8. to reduce industry borrowing limit when company ceases to be wholly owned subsidiary	by SI (negative)	Oil and Gas (Enterprise) Act 1982 s.7(10) (SI affirmative)
9. to specify method of valuing foreign currency loan	by direction	London Regional Transport Act 1984 s.22(2)
10. to allow public dividend capital to be paid to industries and to allow the Secretary of State to direct dividends and repayment	none needed	Iron and Steel Act 1982 s.18(1) and (5) Post Office (Banking Services) Act 1976 s.3(1) and (3) British Airways Board Act 1977 s.7(1)-(2) Aircraft and Shipbuilding Industries Act 1977 s.16(1)-(3)

Comment

Standard present powers over Treasury guarantees, powers of Secretary of State to lend, and preparation by the Secretary of State of accounts concerning an industry's indebtedness to him will also be included in the Bill. The powers set out above generally tidy up existing legislation. They also permit market borrowing by all industries (1), improve coverage of borrowing limits on lines recommended by the PAC(4,7), and aid balance sheet restructuring (10). None are likely to be particularly controversial.

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NATIONALISED INDUSTRIES BILL

Power

Suggested Procedure

Precedent (differences in procedure shown, if any)

ALLOCATION OF SURPLUS FUNDS

11. to allocate amounts to reserve

By direction

BT Act 1981 s.25(1) and 72(1)  
 Gas Act 1972 s.15(1)  
 Coal Nationalisation Act 1946 s.29(2)  
 Electricity Act 1957 s.20(5)  
 Electricity (Scotland) Act 1979 s.19(4)  
 and 21(3)  
 Iron and Steel Act 1982 s.15(4)  
 British Airways Board Act 1977 s.14(1)  
 Airports Authority Act 1975 s.3(5) and (7)  
 Transport Act 1962 s.18(4)  
 Transport Act 1968 s.27(1)  
 Civil Aviation Act 1982 s.8(4) and 13(1)  
 Water Act 1973 Sch 3 para 32

12. to reallocate amounts allocated  
 to reserve for some other  
 purpose

By direction

BT Act 1981 s.25(1) and 72(1)  
 Gas Act 1972 s.15(1)  
 Coal Nationalisation Act 1946 s.29(1)  
 Coal Industry Act 1965 s.2(2) (no application  
 without consent)  
 Electricity Act 1957 s.20(5)  
 Electricity (Scotland) Act 1979 s.19(4)  
 and 21(3)  
 Iron and Steel Act 1982 s.15(4)  
 British Airways Board Act 1977 s.14(1)  
 Airports Authority Act 1975 s.3(5) and (7)  
 Transport Act 1962 s.18(4)  
 Transport Act 1968 s.27(1)  
 Civil Aviation Act 1982 s.8(4)  
 Water Act 1973 Sch 3 para 32

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<u>Power</u>	<u>Suggested Procedure</u>	<u>Precedent (differences in procedure shown, if any)</u>
13. to determine management and application of amounts allocated to reserve	By direction	BT Act 1981 s.25(1) and 72(1) Coal Nationalisation Act 1946 s.29(2) Coal Industry Act 1965 s.2(2) (no application without consent) Electricity Act 1957 s.20(5) Electricity (Scotland) Act 1979 s.19(4) and s.21(3) Gas Act 1972 s.15(1) Iron and Steel Act 1982 s.15(4) British Airways Board Act 1979 s.14(1) Airports Authority Act 1975 s.3(5) and (7) Transport Act 1962 s.18(4) Civil Aviation Act 1972 s.8(4) and 13(1) Transport Act 1968 s.27(1) Water Act 1973 Sch 3 para 32
14. to require payment by industry to the Secretary of State of any sum standing to credit of reserve	By SI (negative)	by direction { <ul style="list-style-type: none"> <li>Civil Aviation Act 1982 s.13(2)</li> <li>Oil and Gas Enterprise Act 1982 s.5(2)</li> <li>Coal Industry Act 1965 s.2(3) (current year surplus)</li> <li>Gas Act 1972 s.16 (current year surplus)</li> <li>Airports Authority Act 1975 s.3(7) (current year surplus)</li> <li>Transport Act 1968 s.41(4), 42(8) and 43(5) (current year surplus)</li> </ul>
15. to require part/all of reserves to be treated as pdc	By SI (negative)	British Airways Board Act s.7 and 14
16. to deem reserves of industry to be debt	By SI (negative)	British Airways Board Act s.7 and 14

Comment

Powers 11-13 are standard. Powers 14-16 respond to PAC recommendations that continuing surpluses should not be left with industries and are also intended to facilitate balance sheet restructuring.



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NATIONALISED INDUSTRIES BILL

Power

Suggested Procedure

Precedent (differences in procedure shown, if any)

ACCOUNTS AND AUDIT

17. to require accounts to deal with industry itself or those members of the group specified, or to be in a form other than consolidated accounts

By direction

Coal Industry Act 1971 s.8(1)  
 Gas Act 1972 s.23(1)-(2)  
 Petroleum and Submarine Pipelines Act 1975 s.10(1)-(2)  
 Iron and Steel Act 1982 s.24(1)  
 BT Act 1981 s.31(1) and 75(1)  
 Aircraft and Shipbuilding Industries Act 1977 s.17(2)  
 London Transport Act 1984 s.23(2)

18. to require statements of accounts to comply with Secretary of State requirements relating to information contained, way in which it is presented, and methods and principles of preparation

By direction

Coal Industry Act 1971 s.8(2)  
 (in such form as SoS may direct)  
 Electricity Act 1957 s.11(1)  
 (in such form as SoS may direct)  
 Gas Act 1972 s.23(1)  
 (in such form as SoS may direct)  
 Petroleum and Submarine Pipelines Act 1975 s.10(1) (in such form as SoS may direct)  
 Iron and Steel Act 1982 s.24(1)  
 (in such form as SoS may specify)  
 BT Act 1981 s.75(3) (by notice in writing)  
 Airports Authority Act 1975 s.8(1)  
 (in such form as SoS may direct)  
 Transport Act 1962 s.24(1)  
 (in such form as SoS may direct)  
 Aircraft and Shipbuilding Industries Act 1977 s.17(3) (by notice in writing)  
 Civil Aviation Act 1982 s.15(1)  
 (in such form as SoS may direct)  
 Local Government Finance Act 1982 sch 4(38)  
 (by notice in writing)



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<u>Power</u>	<u>Suggested Procedure</u>	<u>Precedent (differences in procedure shown, if any)</u>
19. to give an industry's commercial auditors rights of access to an industry's books and such information and explanation as is required.	none needed	new power (from Companies Act 1967 s.14)
20. to determine start and finish of accounting year	By direction	BT Act 1981 s.31(5) Aircraft and Shipbuilding Industries Act 1975 s.17(5)-(6) Local Government Finance Act 1982 Sch 4 para 38(6))
21. to require industry to exercise its powers of appointment of auditors of wholly owned subsidiaries in a particular manner	By direction	New
22. to include such information in annual report as specified by Secretary of State	By direction	Electricity Act 1957 s.10(4) Electricity (Scotland) Act 1979 s.42(1) Gas Act 1972 s.8(1) Petroleum and Submarine Pipelines Act 1975 s.15(2) (as specified by SoS) Railway Act 1974 s.4(5) (as specified by notice in writing) Water Act 1973 Sch 3 para 40

Comment

The Bill will require industries to produce true and fair accounts on traditional lines. Power 18 strengthens the Secretary of State's control over the accounting principles industries should follow and power 22 is intended to improve the coverage of annual reports. Powers 17, 19, 20 and 21 are largely technical and follow analogous Companies Act precedents.

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**RESTRICTED**  
**NATIONALISED INDUSTRIES BILL**

<u>Power</u>	<u>Suggested Procedure</u>	<u>Precedent (differences in procedure shown, if any)</u>
<u>APPOINTMENTS, DISMISSAL ETC</u>		
23. to terminate appointment	by notice in writing	London Regional Transport Act 1984 sch.1 para 7(2) Iron and Steel Act 1982 sch.1 Regulations made under Coal Industry Nationalisation Act 19 s.2
24. to determine remuneration of Board Members	none needed	Coal Industry Act 1965 s.4(2) Electricity Act 1947 s.3(6) Electricity (Scotland) Act 1979 sch.1 para 12 Gas Act 1972 s.1(3) Petroleum and Submarine Pipe-lines Act 1975 sch.1 para 2 Iron and Steel Act 1932 sch.1 para 7 Post Office Act 1969 sch.1 para 4 Airports Authority Act 1975 sch.1 para 3 Transport Act 1962 sch.1 para 8 Aircraft and Shipbuilding Act 1977 s.1(5) Civil Aviation Act 1982 sch.1 para 6 Water Act 1973 sch.1 para 4 London Regional Transport Act 1984 sch.1 para 6
25. to determine compensation paid by industry where appointment prematurely terminated or due notice of intention not to reappoint is not given	none needed	London Regional Transport Act 1984 sch.1 para 7(3)



**RESTRICTED**  
**NATIONALISED INDUSTRIES BILL**

<u>Power</u>	<u>Suggested Procedure</u>	<u>Precedent (differences in procedure shown, if any)</u>
26. to require industry to pay by direction compensation in other cases		Coal Industry Act 1965 s.4(2) Gas and Electricity Act 1963 s.3(1) Electricity (Scotland) Act 1979 s.36(1) Gas Act 1972 s.1(3) Petroleum and Submarine Pipe-lines Act 1975 sch.1 para 3(2) Iron and Steel Act 1982 sch.1 para 8 Post Office Act 1969 sch.1 para 4 Airports Authority Act 1975 sch.1 para 3(1) Transport Act 1962 sch.1 para 8(1) Aircraft and Shipbuilding Act 1975 s.1(5)(c) Civil Aviation Act 1982 sch.1 para 8 Water Act 1973 sch.1 para 6 London Regional Transport Act 1984 sch.1 para 6(1)

Comment

The main feature of these powers is the ability to dismiss board members and to pay compensation. LRT, BSC and NCB board members are already subject to dismissal. The powers allow compensation to be promised at the time appointments are made thus allowing "service contracts" to be drawn up.



**RESTRICTED**  
**NATIONALISED INDUSTRIES BILL**

<u>Power</u>	<u>Suggested Procedure</u>	<u>Precedent (differences in procedure shown, if any)</u>
<u>CREATION AND DISPOSAL OF SUBSIDIARIES</u>		
27. to amend scheme making powers allowing transfer of property, rights and liabilities	by S.I. (negative)	New
28. to require industry to establish subsidiaries and dispose of shares in them	by S.I. (negative)	Oil and Gas (Enterprise) Act 1982 s.11(1) and by SI 3(1) Iron and Steel Act 1982 s.5(1) Transport Act 1981 s.1 and s.3 [by direction in writing] British Shipbuilders Act 1983 s.2 Transport Act 1982 s.3 [by direction] London Regional Transport Act 1984 s.10 [by direction]
29. to require industry to dispose directly of rights, property, liabilities etc	by S.I. (negative)	Electricity Act 1947 s.5 and 6 Electricity Act 1957 s.8(3) (both non-generating assets) [direction] Electricity (Scotland) Act 1979 s.33(4) (non-generating asset [by direction]) Oil and Gas (Enterprise) Act 1982 s.3(1) and 11(1) Iron and Steel Act 1982 s.5(1) British Airways Board Act 1977 s.4(1) [By S.I. draft to be laid before Parliament] London Regional Transport Act 1984 s.10 (by direction) British Shipbuilders Act 1983 s.2 Transport Act 1962 s.27(4) (by direction) Transport Act 1981 s.1 and 3 (by direction, in writing) Transport Act 1982 s.3 (by direction)



**RESTRICTED**  
**NATIONALISED INDUSTRIES BILL**

<u>Power</u>	<u>Suggested Procedure</u>	<u>Precedent (differences in procedure shown, if any)</u>
30. to apply statutory provisions applying to an industry or to a subsidiary with such modifications as are appropriate	by S.I. (negative)	Oil and Gas (Enterprise) Act 1982 s.3(2) and 11(3)
31. to allow transfer of property, rights etc direct to Secretary of State	by S.I. (negative)	Oil and Gas (Enterprise) Act 1982 s.11(5) and s.3(4) (shares only)
32. to require industry to obtain consent of Secretary of State before acquiring or increasing equity interest in a company	none needed	Iron and Steel Act 1982 s.2(2)
33. to require industry to discontinue or not to extend specific activities	by direction	Coal Industry Act 1971 s.7(1) and (2) [by S.I.: draft to be laid before Parliament] Gas Act 1972 s.7(2) [by S.I.: draft to be laid before Parliament] Iron and Steel Act 1972 s.5(1) [by S.I.: negative] British Airways Board Act 1977 s.4(1) (by S.I.: draft to be laid before Parliament) Transport Act 1962 s.27(4) and (5) [by direction] British Shipbuilders Act 1983 s.2 [by S.I.: negative]

Comments

All these powers are likely to prove controversial and there may be pressure for increased Parliamentary involvement (ie affirmative procedures).



RESTRICTED  
NATIONALISED INDUSTRIES BILL

<u>Power</u>	<u>Suggested Procedure</u>	<u>Precedent (differences in procedure shown, if any)</u>
<u>FINANCIAL OBJECTIVES</u>		
14. to determine financial objectives	by S.I.	Iron and Steel Act 1982 s.14(4) and (5) [return on net asset [by notice] Iron and Steel Act 1982 s14(7) [other financial duty: affirmative] BT Act 1981 s.24 and s.71 [by notice in writing] PO (Banking Services) Act 1976 s.2 [no procedure] BA Board Act 1977 s.13 [return on net assets no procedur alternative financial duty by SI affirmative] Aircraft and Shipbuilding Industries Act 1977 s.10 [copy determination to be laid before House] Water Act 1973 s.29 [return on net assets SI negative: oth financial duty by SI affirmative London Regional Transport Act 1984 s.16 [by notice in writing]

Comments

There will be a duty upon the Secretary of State to set financial objectives for each industry. The industry will have to conduct its affairs with a view to achieving the objectives. Existing breakeven duties would be repealed.





JU83

Secretary of State for Trade and Industry

B/P with Department  
responses 19/9

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET  
TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

18 September 1984

CONFIDENTIAL

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
London SW1

*D. Nigel*

COMPETITION ACT 1980, SECTION 11: NATIONALISED INDUSTRY  
REFERENCES TO THE MONOPOLIES AND MERGERS COMMISSION

I am writing to report progress on this year's programme of references and to seek agreement to next year's programme, with a view to making a Parliamentary announcement soon after the recess.

2 The 1984 programme will now comprise only four references compared to the five I announced in January and our original stated intention of making "up to six" references a year. The Scottish airports division of the BAA was dropped from the programme before it was announced and, in the light of George Younger's strong representations, I have decided not to press for a Scottish bus reference in view of the impending changes in the framework within which the industry operates. This latter omission will have to be explained publicly as the reference was included in the programme that was announced for this year.

3 Of the other references in this year's programme, the MMC are currently working on the Yorkshire Water Authority and the revenue collection systems of four area electricity boards (both of which reports are due in October) and British Rail property management. Post Office counter services are to be referred in November.

4 During this year reports have been published so far on the South Wales Electricity Board, London Transport bus maintenance and the Post Office letter service.

/5...

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5 For 1985, I propose a programme comprising an aspect of the British Airports Authority (in January), the two Scottish Electricity Boards, an aspect of British Steel and a regional water authority. I had considered bringing forward the British Airports Authority to December as a 1984 reference to replace Scottish buses, but, overall, it seems better to start 1985 with a reasonably full programme (even without Scottish buses, the 1984 out-turn exceeds that for 1983).

6 This programme is substantial and will give us a reasonable story to tell in the event of renewed pressure to give the C and A G access to nationalised industries.

7 Nonetheless, a full six references would be preferable if it were possible. The British Waterways Board could be a strong candidate after its corporate plan has been delivered next spring. I do not, however, propose to mention this possibility in my statement of the programme.

8 I hope that you and other members of E(NI) can agree to my proposals and to my announcing them by means of a written PQ on the lines of the attached draft. I would like to make the announcement soon after Parliament reassembles and would accordingly be grateful for any comments by 28 September.

9 I am copying this to the Prime Minister, members of E(NI) and Sir Robert Armstrong.

*Norman Tebbit*

NORMAN TEBBIT

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DRAFT WRITTEN QUESTION AND ANSWER

Q. TO ASK THE SECRETARY OF STATE FOR TRADE AND INDUSTRY IF HE WILL REPORT PROGRESS ON THE ROLLING PROGRAMME OF REFERENCES OF NATIONALISED INDUSTRIES TO THE MONOPOLIES AND MERGERS COMMISSION UNDER SECTION 11 OF THE COMPETITION ACT 1980

A. During 1984, reports were published on London Transport bus maintenance, the South Wales Electricity Board and the Post Office letter post service. I have received the Commission's report on the Yorkshire Water Authority and the revenue collection systems of four area electricity boards. These will both be published in due course.

The Commission are currently investigating British Rail property management. Post Office counter services [are to be referred shortly].

I have concluded that, in the light of the government's proposals for radical reform of the bus industry and the introduction of competition that will result, it would not be appropriate to make the reference of an aspect of public sector bus services in Scotland that was announced as part of this year's programme.

We plan a further substantial programme of investigations in 1985 to carry forward our policy of subjecting the public sector to independent external scrutiny. An aspect of the

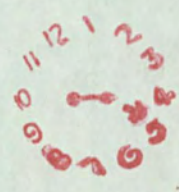


British Airports Authority will be referred early in 1985. This will be followed in the course of 1985 by references of aspects of the North of Scotland Hydro-Electric Board, the South of Scotland Electricity Board, the British Steel Corporation and a regional water authority. Details of each reference will be announced as it is made.





71234







Treasury Chambers, Parliament Street, SW1P 3AG  
 PS/Secretary of State for Trade and Industry  
 Department of Trade and Industry  
 1 Victoria Street  
 LONDON  
 SW1E 6RB

15 August 1984

*Dear Andrew,*

*No pm  
 Barb  
 16/8*

#### **NATIONALISED INDUSTRIES BILL**

The Chief Secretary was grateful for your Secretary of State's and other colleagues' comment on the consultation note on the Nationalised Industries Bill which he sent to the NICG on 6 August. Because the Bill is a collective exercise, he thought it important to make clear to industries that the Treasury is coordinating the exercise on behalf of sponsor Departments. The Treasury will clearly need colleagues' support as the Bill passes through Parliament.

The note sent to the NICG leaves open how the various new powers will be exercised and, in particular, the extent of any Parliamentary procedures. Treasury Ministers are further reviewing this and will consult colleagues about this after the holidays.

The Prime Minister's summing up at E(NI)(84)3rd meeting said that the Bill should confer powers on Ministers to approve or prevent the acquisition and disposal by nationalised industries of equity in subsidiaries whether wholly-owned or partly-owned. In view of the clear nature of this decision, the Chief Secretary thought it right to include it in the consultation note.

The Secretary of State for Energy's letter of 25 July asked that the note should make clear to industries the scope of the power to determine "financial objectives". The note sent to the NICG says "financial objectives (eg. financial targets and cost-based performance aims)".

Treasury Ministers hope that there will not be any need to change the present system whereby EFLs are set after consultation on a non-statutory basis and thus the note makes



no mention to EFLs in future being made generally subject to statute.

I am sending copies of this letter to Private Secretaries of E(NI) members.

*Yours Sincerely*  
*Paul Gieve*  
JOHN GIEVE  
Private Secretary



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4 - 11/15 1984





Treasury Chambers, Parliament Street, SW1P 3AG

J Dent Esq CBE  
 Chairman  
 Nationalised Industries' Chairmen's Group  
 CAA House  
 45-59 Kingsway  
 LONDON WC2B 6TE

6 August 1984

*J Dent*

**NATIONALISED INDUSTRY LEGISLATION**

The Government has been reviewing existing nationalised industry statutes in light of current policies. Policy towards nationalised industries has evolved over the years and some early statutes need updating in light of developments. We see great advantages to the industries, Parliament, and the Government if the statutes applied to nationalised industries could be made as clear and simple as possible.

We are therefore considering the possibility of introducing legislation in the coming Parliamentary Session to simplify, consolidate, and update some aspects of existing statutes. We are of course anxious to consult the Chairmen's Group about this and details of what we propose are contained in the attached note. The Chancellor has asked me to let you also have the enclosed supplementary note on the changes related to the terms for new appointments and reappointments of nationalised industry board members describing how these would work in practice.

We see the overall legislation as having several main benefits. It would establish a core of common statutory provisions applicable to all industries whilst allowing sufficient flexibility to cater for differing circumstances. It would enable around 40 separate statutes to be amended or repealed in part and replaced by a single set of provisions. Our intention has been to identify the best features of existing statutes and apply them generally. This means that most of the provisions described in the attached note have precedents in existing legislation and will be familiar to you and your colleagues.

I should stress that it is not intended that the legislation would result in any significant changes in the existing

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relationship between Government and the industries. It should provide a modern statutory framework within which industries will be able to operate commercially and effectively. I am sure that you and your fellow chairmen will welcome this.

We have not attempted in the attached note to describe in detail how the proposed powers will operate, and Treasury officials will be ready to deal with any immediate questions that you or your colleagues may have. Because the legislation would affect all industries, the Treasury is coordinating the exercise on behalf of sponsor Departments. It is however very much a joint exercise and industries may wish to discuss specific points direct with their sponsor Departments. In any event, we are anxious to make progress and I would be most grateful if despite the holiday season you could arrange to let us have all major NICG comments on the proposals by mid-September in whatever form is convenient for you. For the moment we are not intending to make any formal announcement about this prospective legislation and I would be grateful if you and your fellow Chairmen would bear this in mind.

*Yours sincerely* Peter Rees

PETER REES



## DESIRABLE CHANGES IN NATIONALISED INDUSTRY STATUTES

Note by HM Treasury

The Government has reviewed the existing statutes of nationalised industries and has concluded that some consolidation and simplification would be desirable. Statutes have not kept in line with developments in Government policy over the years and there is a need to update them. The PAC have, for example, drawn attention to what they regard as certain inadequacies in powers relating to the coverage of borrowing limits and the handling of surpluses. The Government thinks it would be useful to provide the industries with a clear statutory framework incorporating the best features of existing statutes. Industries will then know clearly where they stand.

2. It is proposed that legislation should deal with the following:

- (a) Borrowing and guarantees;
- (b) Allocation of surplus funds;
- (c) Reports, accounts, and audit;
- (d) Financial objectives;
- (e) Terms of appointment of board members;
- (f) Restructuring and asset disposal.

3. The attached annex sets out the detailed provisions which the Government thinks desirable in each of the areas listed above. Most of the proposals have precedents in existing legislation. The Treasury is coordinating this exercise on behalf of sponsor Departments and will be ready to discuss with the NICG the implication of the proposed changes and their rationale. In parallel, sponsor Departments will be prepared to discuss how the measures would be applied to individual industries.

PE2

HM Treasury

2 August 1984



1. Borrowing and guarantees

(i) An industry and its wholly owned subsidiaries may

(a) carry out temporary borrowing in sterling from the Secretary of State and with the consent of the Secretary of State and the approval of the Treasury in sterling or a currency other than sterling from a person other than the Secretary of State.

(b) carry out borrowing other than by temporary loan for any or all of the following purposes:

- provision of money for meeting any expenses incurred by the industry or any of its subsidiaries in connection with any works the cost of which is chargeable to capital account
- provision of working capital required by it or any such subsidiary
- subscription for or acquisition of securities of an incorporated company or other body corporate, promotion of the formation of an incorporated company or participation in the promotion of such a company or acquisition of an undertaking or part of an undertaking
- repayment of any money borrowed by it or any such subsidiary and repayment of any sums issued by the Treasury in fulfilment of a guarantee by the Treasury
- for lending money to or meeting a guarantee given for the benefit of any person for the purpose of an undertaking carried on by him or, where that person is a body corporate an undertaking carried on by a subsidiary or that body corporate



- for any purpose for which capital moneys are properly applicable.

(ii) Industries to ensure that none of their wholly owned subsidiaries borrow otherwise than from the industry or from another wholly owned subsidiary except with the consent of the Secretary of State with the approval of Treasury.

(iii) Industries and their wholly owned subsidiaries to have no power to borrow other than in accordance with their borrowing powers

(iv) The Secretary of State may give directions restricting or preventing an industry from lending to any or all of its wholly or partly-owned subsidiaries. There will be a power for the Secretary of State to direct that industries shall require his consent before they or their wholly-owned subsidiaries guarantee third party borrowing:

(v) The aggregate amount outstanding in respect of

(a) borrowing by the industry

(b) borrowing by the industry's wholly owned subsidiaries

(c) borrowing by a third party (including partly owned subsidiaries) in respect of which the industry or one or more of its wholly owned subsidiaries is a surety or guarantor

(d) sums issued by the Treasury in fulfilment of guarantees

(e) PDC issued to an industry or S18 BSC advances

for each individual industry shall not exceed £X or such greater sum not exceeding £Y as the Secretary of State may from time to



time specify borrowing shall include forward sales deliverable more than twelve months after payment, the issuing of bills of exchange, and any arrangements by which a sum payable at any date is payable at a later date (including sums arising from the purchase of any property).

(vi) An industry and its wholly owned subsidiaries, <sup>and agreement</sup> may, with the consent of the Secretary of State/ of the Treasury borrow in excess of the limit specified for that industry for the purpose of the redemption of any stock or other securities which the industry or one of its subsidiaries are required or entitled to redeem or the repayment of any money borrowed or raised.

(vii) Where a company ceases to be a wholly-owned subsidiary of an industry the Secretary of State may reduce the borrowing limit.

(viii) The Treasury in respect of all industries or the Secretary of State in respect of individual industries may specify other transactions which shall be regarded as borrowing for the purpose of the borrowing limit and how the amount which is deemed to be borrowed shall be calculated.

(ix) The Secretary of State may direct that any loans shall be repaid to him at such times and by such methods as he may, with the approval of the Treasury, from time to time direct. A direction may be given requiring premature repayment of a loan which was originally made by the Secretary of State for a particular period.

(x) The Secretary of State may, with the approval of the Treasury, specify how loans other than in sterling shall be valued in sterling for the purposes of the borrowing limit. In the absence of such a specification, the valuation will be that prevailing



at the time of drawdown.

(xi) Borrowing between wholly-owned subsidiaries and between such subsidiaries and the industry shall not count towards the borrowing limit.



Allocation of Surplus Funds

(i) The Secretary of State may from time to time after consultation with the industry and with the approval of the Treasury require the industry or its wholly owned subsidiaries:

(a) to allocate to reserve generally or to reserve for a particular purpose either a specified amount or such amount as the industry considers adequate.

(b) to reallocate for a specified purpose the whole or any part of any amount previously allocated to reserve for some other purpose.

(c) to apply amounts allocated to reserve for a specific purpose.

(ii) Any allocations or re-allocations under (i) may either be required to happen at a specific time or during the course of a specified period.

(iii) The Secretary of State may after consultation with the industry and with the approval of the Treasury require that reserves of an industry should be capitalised. It would then be possible for all or part of a sum standing to the credit of reserves maintained by the industry or its wholly owned subsidiaries either to be deemed to be a loan made to the industry or its wholly owned subsidiaries or to be public dividend capital issued to the industry. The rate of interest on any such loan and the arrangements for repaying it shall be as determined by the Secretary of State with the agreement of the Treasury.

(iv) The Secretary of State may with the approval of the Treasury and after consultation with the industry require all or part of any sum to be paid to him which is standing to the credit of any reserve of the industry or its wholly



owned subsidiaries.

(v) The Secretary of State, with the approval of the Treasury, may issue public dividend capital to an industry. An industry may with the agreement of the Secretary of State and shall if the Secretary of State with the approval of the Treasury requires them to do so, make payments to the Secretary of State in reduction of the public dividend capital of the industry . . . The Secretary of State may after consultation with the industry . . . and with the agreement of the Treasury direct from time to time the rate at which any public dividend capital held by the industry shall be remunerated.

(vi) The Secretary of State shall pay any sums he receives under these proposed powers into the Consolidated Fund.

(vii) Powers to have due regard to the interests of the industry and its creditors.



3. Reports, account and audit

(i) Duty on the industry to keep proper accounts and records; to prepare in respect of each accounting year a statement or statements of consolidated accounts or such other form of group accounts as specified by the Secretary of State giving a true and fair view of the state of affairs and profit and loss of the industry and including all its subsidiaries except for such exclusions as the Secretary of State may determine with the approval of the Treasury.

(ii) Subject to the overriding true and fair view, every statement of accounts prepared by the industry in accordance with (i) to comply with any written notice given by the Secretary of State and with the approval of the Treasury, in relation to the information to be contained in the statements of accounts, the manner in which the information is to be presented, and the methods and principles according to which the statement is prepared. An industry may be required to present same information in different ways.

(iii) Power for the Secretary of State after consultation with the industry and approval of the Treasury to direct that the accounting year shall end on such date as specified in the direction, whether before or after the date on which it would otherwise end.

(iv) All statements and accounts kept and prepared by the industry under this clause to be audited at the end of the accounting year by auditors appointed by the Secretary of State after consultation with the industry. Secretary of State, with the approval of the Treasury, may direct an industry to exercise its power over the appointment of the auditors of any of its wholly-owned subsidiaries in a particular manner, either as to a particular person to be appointed or class of persons.



(v) Auditors appointed under (iv) above to be a member either of one or more bodies or accountants established in the United Kingdom and recognised for the purposes of section 161(1)(a) of the Companies Act 1948 by the Secretary of State or a person authorised under Section 161(1)(b) of that Act; a Scottish firm to be so appointed if each of the partners therein is qualified to be so appointed.

(vi) Auditors appointed under (iv) above to have right of access at all times to the books and accounts and vouchers of the industry and be entitled to require from the officers of the industry such information and explanation as are necessary for the performance of the duties of the auditors.

(vii) Duty on the subsidiary, and its auditors, of the industry to give to the auditors of the industry such information and explanation as those auditors may reasonably require for the purpose of their duties as auditors of the industry. Duty on the industry if required by its auditors to do so, to obtain such information and explanation as aforesaid.

(viii) As soon as accounts kept and statements prepared have been audited, an industry to send Secretary of State a copy of the statements; copies of the statements of accounts for those subsidiaries as the industry with the approval of the Secretary of State and consent of the Treasury, may determine; copies of the statements of accounts of each subsidiary of the industry except for such exclusions as the Secretary of State, with the consent of the Treasury, may specify by notice in writing; and a copy of any report made by the auditors on the statements or accounts of the Corporation. Secretary of State to lay copies of all statements and any report on the statements or accounts before each House of Parliament.



(ix) Duty on the industry to make to the Secretary of State, as soon as possible after the end of each accounting year, a report on the performance of its functions during that year.

(x) Report made in (i) above to include such clauses of information as the Secretary of State may specify in writing and any direction given by the Secretary of State during the year unless publication of any such direction thought in his opinion to be against the interests of national security or commercial confidentiality.

(xi) Secretary of State to lay a copy of each report received by him in pursuance of this clause before each House of Parliament.



4. Financial Objectives

(i) Duty on the Secretary of State with the approval of the Treasury and after consultation with the **industry** to determine financial objectives (eg financial targets and cost based performance aims) for the **industry** and its subsidiaries. Such objectives may be for different periods and relate to different assets and activities of the **industry** and may be varied or revoked. It may relate to the **industry** and its subsidiaries as a whole, or such part or parts as may be specified.

(ii) The **industry** shall conduct its affairs with a view to achieving any financial objectives currently in force.

Note Present breakeven duties will be repealed.



Terms and Appointment of Board Members

In respect of new appointments and reappointments made following the coming into force of the Bill:

(i) Each member of the Board of each industry shall be appointed by the Secretary of State and shall hold and vacate office in accordance with the terms of his instrument of appointment; on ceasing to be a member, he shall be eligible for reappointment.

(ii) Power for the Secretary of State to terminate the appointment of a member by giving to him not less than twelve months' prior notice in writing. Notice may be given without a reason for it being specified. The instrument of appointment would provide for the payment of compensation by the industry to a member where:

(a) the appointment is terminated by the Secretary of State before the expiry period specified in the instrument of appointment; or

(b) notice of an intention not to reappoint the member after the expiry of the period of appointment is not given within six months or such time as specified in the instrument of appointment.

Arrangements may be varied for non-executive board members. Where a person ceases to be a member of an industry other than in the circumstances set out above and there appears to the Secretary of State special circumstances which make it right for that person to receive compensation, the Secretary of State with the consent of the Treasury may direct an industry to pay such compensation as the Secretary of State with the approval of the Treasury may determine.

(iii) A member may resign his office by giving to the Secretary of State either three months' notice in writing or such shorter notice as he may approve.



(iv) Power for the Secretary of State, if he is satisfied that a member of an industry:

(a) has been absent from meetings of the industry for a period longer than three consecutive months without the permission of the industry;

(b) has become bankrupt or made an arrangement with his creditors;

(c) is incapacitated by physical or mental illness; or

(d) is otherwise unable to unfit to discharge the functions of a member;

to declare vacant the office of the member. The Secretary of State may specify in the instrument of appointment other grounds for declaring vacant the office of a member.

(v) Each industry shall pay to their members only such remuneration as may be determined by the Secretary of State with the consent of the Treasury. The Secretary of State with the consent of the Treasury may determine the arrangements for the payment by the industry of a pension in respect of a person who is or has been a board member of that industry.



## 6. Restructuring and Asset Disposal

(i) **Industries** to have the power to set up wholly owned subsidiaries under the Companies Act and with the consent of the Secretary of State to be able by scheme to transfer property, rights and liabilities to them or between one such subsidiary and another. **Industries** to be able to increase the capital of such subsidiaries.

(ii) With the consent of the Secretary of State and the approval of the Treasury, an **industry** may provide for an employee share scheme to be established for any subsidiary established under the Companies Act and for shares to be transferred into such schemes without consideration.

(iii) **Industries** to require the consent of the Secretary of State and the approval of the Treasury before disposing of equity in wholly or partly-owned subsidiaries and the Secretary of State may require all or part of any consideration arising on disposal to be paid by the **industry** into the Consolidated Fund. Such equity not to be sold other than with such consent.

(iv) The Secretary of State may, after carrying out such consultations as he thinks fit, direct an **industry** and its wholly owned subsidiaries in such manner as he specifies, to set up wholly owned subsidiaries and to require property, rights and liabilities to be transferred to them or between them. Power for the Secretary of State with the approval of the Treasury to direct an **industry** and its wholly owned subsidiaries to dispose in such a manner, at such a time, and for such purposes as he specifies, of all or part of the equity of wholly owned subsidiaries, all or part of the equity held in partly owned subsidiaries, or such property, rights and obligations as he specifies. He may transfer to himself or to such persons as he specifies all or part of the share capital of a wholly owned subsidiary, all or part of the equity held in partly owned subsidiaries, or specified property, rights and



obligations, and, in consideration of this, pay out of money provided by Parliament such sums as he specifies. Power for the Secretary of State to sell or otherwise dispose of such shares, property, rights, or obligations on such terms as he, with the approval of the Treasury, thinks fit and to pay any receipts into the Consolidated Fund.

(v) Power for the Secretary of State, after consultation with the industry to direct an industry - to discontinue any activity either wholly or to a specified extent; not to extend any activity or not to extend it beyond specified limits; and to exercise its control over any wholly owned subsidiary so as to cause the subsidiary to discontinue any activity either wholly or to a specified limits. An industry or its wholly owned subsidiaries to require the consent of the Secretary of State before acquiring an interest in the capital of any company in which the industry or its wholly owned subsidiaries do not already hold an interest or to extend any interest presently held.

(vi) The Secretary of State when exercising his powers set out above to have due regard to the interests of creditors.



## TERMS OF APPOINTMENT OF NATIONALISED INDUSTRY BOARD MEMBERS

### PROPOSED NEW ARRANGEMENTS

The Government has reviewed the terms of appointment of nationalised industry board members and has concluded that some changes are desirable to bring contractual arrangements more into line with <sup>those in</sup> the private sector. It is important to continue to attract good quality candidates to serve on nationalised industry boards and the proposed new arrangements should help to secure this.

2. Some minor statutory changes are needed to allow the new arrangements to be implemented. Subject to the passage of the necessary legislation it is intended that all future appointments and reappointments should follow the broad principles set out below. The exact terms to be applied to each board member will be set out in individual instruments of appointment agreed at the time of appointment.

#### Appointments

3. Board members will be appointed for a fixed term normally of 5 years. Shorter terms may be considered, particularly for part-time board members. A board member may resign by giving 3 months' notice in writing or such shorter period of notice as the Secretary of State may approve.

#### Grounds for declaring an office vacant

4. The Secretary of State may declare an office vacant if a board member:

(a) is absent from meetings of the Corporation for a period longer than 3 consecutive months without the Corporation's permission;

(b) becomes bankrupt or makes an arrangement with his creditors;



(c) is incapacitated by physical or mental illness

(d) is otherwise unable or unfit to discharge the functions of a member.

Instruments of appointments will be able to specify additional grounds if the Secretary of State considers it appropriate in the case of particular industries.

#### Termination of office

5. The Secretary of State may terminate the appointment of any board member on 12 months' notice with no reason for loss of office needing to be given. Where this occurs, compensation will be payable in accordance with the terms of paragraph 6 below.

#### Compensation

6. Compensation will be discretionary if a member's office is declared vacant under paragraph 4 (above). If a member's appointment is terminated, lump-sum compensation will be payable in respect of the unexpired period of an appointment. Normal terms for compensation will be as follows:

(a) a period of notice of 12 months, or compensation in lieu of notice equivalent to the salary that would have been earned in the notice period;

(b) additional lump sum compensation calculated by taking the gross loss of remuneration for the unexpired period of appointment (ie the time between the end of the notice period and the termination date of the appointment), reduced by the amount which the member might reasonably be expected to obtain from immediate pension or to earn in other suitable employment, the resulting net figure being discounted for immediate payment and adjusted to take account of loss of pension rights and of actuarial and tax considerations.

Arrangements may be varied for non-executive board members.



Re-appointment

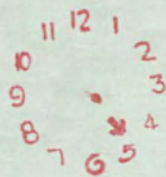
7. The Secretary of State will expect to give board members 6 months' notice if it has been decided not to reappoint a board member at the expiry of a term of office. If due notice is not given, compensation up to the equivalent of 6 months' salary will normally be payable. Non-executive members may be excluded from these provisions.

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H M Treasury

3 August 1984



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DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422

GTN 215

(Switchboard) 215 7877

Secretary of State for Trade and Industry

1 August 1984

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
London SW1P 3AG

*D. Peter*

NATIONALISED INDUSTRIES BILL

*-with AT*

Thank you for your letter of 19 July.

2 I retain my reservations on the value of the Bill, which I believe may well be resisted by the industries and could antagonise the Chairmen. But I also see that before we take the proposals further it is essential to discuss them with the industries. The draft paper provides a basis for those discussions, and I agree that it should be circulated to the NICG, subject to the following amendments:

(a) in the draft covering note I should be grateful if the words "on behalf of sponsor Departments" were deleted;

(b) I think it is unnecessarily heavy-handed to make the power proposed in the Annex, section 1(x) exercisable by order made by statutory instrument;

(c) I still do not believe it is necessary that Ministerial consent should be required (as at section 6(iii) of the Annex) for an industry to dispose of equity in wholly-owned subsidiaries.

3 I understand that officials are examining a number of detailed accounting and taxation points, but perhaps these can be left for discussion with industries when the consultation paper has been circulated.

4 E(NI) agreed that the case for the Bill could be reconsidered in the context of our autumn discussion of the Queen's Speech, so

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it will be important by then to have had at least the preliminary reaction of the NICG. In the light of the response from the industries I may well wish to raise again my own reservations on the Bill.

A handwritten signature in black ink, appearing to read 'Norman Tebbit', with a stylized initial 'N' and a horizontal line above the name.

NORMAN TEBBIT

JH1ARE



NT: P. 100





CCNO



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

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The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

31 July 1984

Dear Peter,

NATIONALISED INDUSTRIES BILL

Thank you for sending me a copy of your letter of 19 July to Peter Walker.

I agree it is important to embark on consultations with NICG as soon as possible and am broadly content with the description of the proposals in the Annex to your letter. My officials will then be in touch with the Scottish nationalised industries to discuss some of the technical aspects of the Bill as they apply to Scotland.

I am copying this letter to the Prime Minister, other E(NI) colleagues, the Lord President, the Lord Privy Seal, the Secretary of State for Wales and Sir Robert Armstrong.

Yours sincerely,  
George



NAT IND PTY  
Policy







NBPN  
2817

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

26 July 1984

Dear Peter,

NATIONALISED INDUSTRY BILL

Thank you for sending me a copy of your letter of 19 July to Peter Walker with the draft paper for the Nationalised Industries Chairmen's Group on our proposals for legislation.

There is little time to consult industries, who will be closely interested in the detail and justification of the changes we proposed. And some proposals may provoke a strong reaction from the Chairmen of the nationalised industries, or from back-benchers and the Opposition. But at this stage obviously we must go ahead and consult as you propose.

If you want to know what the industries think by mid-September you must write to the nationalised industry chairmen as soon as you feel you can.

I am copying to the Prime Minister, other E(NI) colleagues, Willie Whitelaw, Nick Edwards, John Biffen and Sir Robert Armstrong.

Yours  
Patrick

PATRICK JENKIN







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SECRETARY OF STATE FOR ENERGY  
THE HON. HOUSE COMMONS  
MILL BANK LONDON E.C.4M 401  
01 211 6402

The Rt Hon Peter Rees QC MP  
Chief Secretary  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

25 July 1984

NATIONALISED INDUSTRIES BILL

Thank you for your letter of 19 July.

As you indicate, the draft note for the Nationalised Industries' Chairmen's Group (NICG) closely reflects the E(NI) decisions, and on that basis I am generally content with it to serve for consultations with NICG and the industries.

I understand that my officials offered some drafting amendments on the NICG note at the Official Committee on Nationalised Industry Policy on 23 July. There is, however, one point in the note to which I attach considerable importance. This is that we should make it clear to the NICG, and to the individual industries, exactly what the scope is of the power to determine "financial objectives". You will recall my letter of 29 May, which noted our understanding that this did include powers to set EFLs and performance aims. Whether or not we decide to use these powers for these purposes in a particular case cannot of course be settled now. But I do believe we should leave the industries in no doubt that the powers are, if it is our intention so to draft them, so wide as to embrace both these important aspects of their affairs.

Whilst I accept your reasons for holding up the approach to NICG for a short while I hope you will ensure that there will be no extensive delay. There is a lot still to be done at a difficult time of year, and I will want my officials to be given the earliest possible opportunity to contact the individual industries.

I am copying this letter to the Prime Minister, other E(NI) colleagues, Willie Whitelaw, Nicholas Edwards, John Biffen and to Sir Robert Armstrong

ew

PETER WALKER

CONFIDENTIAL



NAT. IND : ... Policy : PL-9.

25 JUL 1984







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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MBE MP  
 Secretary of State for Energy  
 Department of Energy  
 Thames House South  
 Millbank  
 LONDON  
 SW1P 4QJ

19 July 1984

**NATIONALISED INDUSTRIES BILL**

E(NI)(84)3rd Meeting agreed that I should circulate a paper which might be sent to the Nationalised Industries' Chairman's Group setting out our proposals for legislation as a basis for discussion with the industries. The enclosed draft is based on Annex B to E(NI)(84)6 updated in the light of E(NI) decisions.

We have reflected on the best way to put into effect the E(NI) decision that breakeven duty should be repealed and replaced by a power to set financial objectives. Self-evidently, industries cannot be given a free hand to do whatever they wish financially so I suggest that Secretaries of State should assume a duty to set financial objectives for each industry. In order to give Secretaries of State as much flexibility as possible and to keep as close as possible to present practices, the power would be exercisable by direction and industries would have to conduct their affairs with a view to achieving the objectives currently in force. We must however face the risk that Parliamentary opinion might in due course be in favour of there being a Parliamentary procedure.

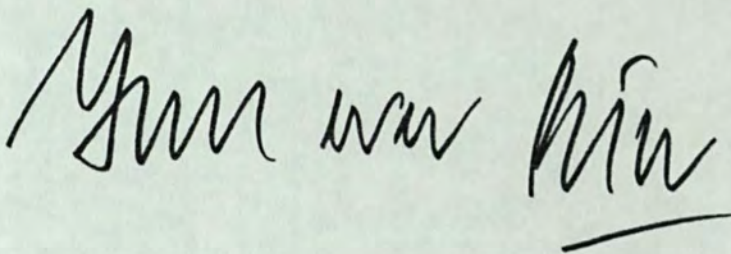
I would be grateful if you and other colleagues could confirm as quickly as possible that you are content that the Treasury should open up consultations with the NICG on the basis of the attached note. We will make clear that although the Treasury, for convenience, is in the lead, the proposed legislation is a joint exercise between the Treasury and sponsor Departments. Departments will of course then be free in parallel to discuss matters that affect their individual industries. I understand that Parliamentary Counsel are



starting work on the Bill and I hope that a first print will be ready quite quickly. In view of the time pressures, it would be helpful if your office could let me know as soon as possible if there are any substantive difficulties remaining on this document, which of course closely reflects E(NI) discussions. I suggest any detailed points of drafting can conveniently be settled by officials at a meeting of the Official Committee on Nationalised Industry Policy already fixed for 23 July.

I think that it is very likely that the fact we are opening up consultations on a Bill will become public knowledge. In order to minimise repercussions if this should happen, I intend to delay writing to the NICG for a couple of weeks.

I am sending copies of this letter and enclosure to the Prime Minister, other E(NI) colleagues, the Lord President, the Lord Privy Seal, the Secretary of State for Wales and Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read 'Gum was Peter', written in dark ink.

PETER REES



## DESIRABLE CHANGES IN NATIONALISED INDUSTRY STATUTES

### Note by HM Treasury

The Government has reviewed the existing statutes of nationalised industries and has concluded that some consolidation and simplification would be desirable. Statutes have not kept in line with developments in Government policy over the years and there is a need to update them. The PAC have, for example, drawn attention to certain inadequacies in powers relating to the coverage of borrowing limits and the handling of surpluses. The Government thinks it would be generally advantageous if a clear statutory framework could be set for the industries which included features of all the best existing statutes. Industries will then know clearly where they stand.

2. Legislation seems necessary in the following areas:

- (1) Borrowing and guarantees;
- (2) Allocation of surplus funds;
- (3) Reports, accounts, and audit;
- (4) Financial objectives;
- (5) Appointments, loss of office, and compensation of board members;
- (6) Restructuring and asset disposal.

3. The attached annex sets out the detailed provisions which the Government thinks desirable in each of the areas listed above. Most of the proposals have precedents in existing legislation. The Treasury is coordinating this exercise on behalf of sponsor Departments and will be happy to discuss with the NICG the implication of the proposed changes and their rationale. In parallel, sponsor Departments will discuss how the measures would be applied to individual industries.

PE2

HM Treasury

18 July 1984



1. Borrowing and guarantees

(i) An industry and its wholly owned subsidiaries may

(a) carry out temporary borrowing in sterling from the Secretary of State and with the consent of the Secretary of State and the approval of the Treasury in sterling or a currency other than sterling from a person other than the Secretary of State.

(b) carry out borrowing other than by temporary loan for any or all of the following purposes:

- provision of money for meeting any expenses incurred by the industry or any of its subsidiaries in connection with any works the cost of which is chargeable to capital account
- provision of working capital required by it or any such subsidiary
- subscription for or acquisition of securities of an incorporated company or other body corporate, promotion of the formation of an incorporated company or participation in the promotion of such a company or acquisition of an undertaking or part of an undertaking
- repayment of any money borrowed by it or any such subsidiary and repayment of any sums issued by the Treasury in fulfilment of a guarantee by the Treasury
- for lending money to or meeting a guarantee given for the benefit of any person for the purpose of an undertaking carried on by him or, where that person is a body corporate an undertaking carried on by a subsidiary or that body corporate



- for any purpose for which capital moneys are properly applicable.

(ii) Industries to ensure that none of their wholly owned subsidiaries borrow otherwise than from the Corporation or from another wholly owned subsidiary except with the consent of the Secretary of State with the approval of Treasury.

(iii) Industries and their wholly owned subsidiaries to have no power to borrow other than in accordance with their borrowing powers

(iv) The Secretary of State may give directions restricting or preventing a Corporation from lending to any or all of its wholly or partly-owned subsidiaries. An industry shall not exercise its power to guarantee third party borrowing unless the Secretary of State so directs. Industries to ensure that none of its wholly-owned subsidiaries guarantees third party borrowing unless the Secretary of State so directs.

(v) The aggregate amount outstanding in respect of

(a) borrowing by the industry

(b) borrowing by the industry's wholly owned subsidiaries

(c) borrowing by a third party (including partly owned subsidiaries) in respect of which the industry or one or more of its wholly owned subsidiaries is a surety or guarantor

(d) sums issued by the Treasury in fulfilment of guarantees

(e) PDC issued to an industry or S18 BSC advances

for each individual industry shall not exceed £X or such greater sum not exceeding £Y as the Secretary of State may from time to



time by Order specify, subject to affirmative resolution. Borrowing shall include forward sales deliverable more than twelve months after payment, the issuing of bills of exchange, and any arrangements by which a sum payable at any date is payable at a later date (including sums arising from the purchase of any property).

(vi) An industry and its wholly owned subsidiaries may, with the consent of the Treasury borrow in excess of the limit specified for that industry for the purpose of the redemption of any stock or other securities which the industry or one of its subsidiaries are required or entitled to redeem or the repayment of any money borrowed or raised.

(vii) Where a company ceases to be a wholly-owned subsidiary of an industry the Secretary of State may reduce the borrowing limit. The power to be exercisable by order made by statutory instrument.

(viii) The Treasury in respect of all industries or the Secretary of State in respect of individual industries may specify other transactions which shall be regarded as borrowing for the purpose of the borrowing limit and how the amount which is deemed to be borrowed shall be calculated. The power to be exercisable by order made by statutory instrument.

(ix) The Secretary of State may direct that any loans shall be repaid to him at such times and by such methods as he may, with the approval of the Treasury, from time to time direct. A direction may be given requiring premature repayment of a loan which was originally made by the Secretary of State for a particular period.

(x) The Secretary of State may, with the approval of the Treasury, specify how loans other than in sterling shall be valued in sterling for the purposes of the borrowing limit. In the absence of such a specification, the valuation will be that prevailing



at the time of drawdown. The power to be exerciseable by order made by statutory instrument.

(xi) Borrowing between wholly-owned subsidiaries and between such subsidiaries and the Corporation shall not count towards the borrowing limit.



2. Allocation of Surplus Funds

(i) The Secretary of State may from time to time after consultation with the Corporation and with the approval of the Treasury require the Corporation or its wholly owned subsidiaries:

(a) to allocate to reserve generally or to reserve for a particular purpose either a specified amount or such amount as the Corporation considers adequate.

(b) to reallocate for a specified purpose the whole or any part of any amount previously allocated to reserve for some other purpose.

(c) to apply amounts allocated to reserve for a specific purpose.

(ii) Any allocations or re-allocations under (i) may either be required to happen at a specific time or during the course of a specified period.

(iii) The Secretary of State may after consultation with the Corporation and with the approval of the Treasury require that reserves of an industry should be capitalised. It would then be possible for all or part of a sum standing to the credit of reserves maintained by the Corporation or its wholly owned subsidiaries either to be deemed to be a loan made to the Corporation or its wholly owned subsidiaries or to be public dividend capital issued to the Corporation. The rate of interest on any such loan and the arrangements for repaying it shall be as determined by the Secretary of State with the agreement of the Treasury.

(iv) The Secretary of State may with the approval of the Treasury and after consultation with the Corporation require all or part of any sum to be paid to him which is standing to the credit of any reserve of the Corporation or its wholly



owned subsidiaries.

(v) The Secretary of State, with the approval of the Treasury, may issue public dividend capital to an industry. A Corporation may with the agreement of the Secretary of State and shall if the Secretary of State with the approval of the Treasury requires them to do so, make payments to the Secretary of State in reduction of the public dividend capital of the Corporation. The Secretary of State may after consultation with the Corporation and with the agreement of the Treasury direct from time to time the rate at which any public dividend capital held by the Corporation shall be remunerated.

(vi) The Secretary of State shall pay any sums he receives under these proposed powers into the Consolidated Fund.

(vii) Powers to be exercisable by direction and to have due regard to the interests of the Corporation and its creditors.



3.

Reports, account and audit

(i) Duty on the Corporation to keep proper accounts and records; to prepare in respect of each accounting year a statement or statements of consolidated accounts or such other form of group accounts as specified by the Secretary of State giving a true and fair view of the state of affairs and profit and loss of the Corporation and including all its subsidiaries except for such exclusions as the Secretary of State may determine with the approval of the Treasury.

(ii) Subject to the overriding true and fair view, every statement of accounts prepared by the Corporation in accordance with (i) to comply with any written notice given by the Secretary of State and with the approval of the Treasury, in relation to the information to be contained in the statements of accounts, the manner in which the information is to be presented, and the methods and principles according to which the statement is prepared. Corporation may be required to present same information in different ways.

(iii) Power for the Secretary of State after consultation with the Corporation and approval of the Treasury to direct that the accounting year shall end on such date as specified in the direction, whether before or after the date on which it would otherwise end.

(iv) All statements and accounts kept and prepared by the Corporation under this clause to be audited at the end of the accounting year by auditors appointed by the Secretary of State after consultation with the Corporation. Secretary of State, with the approval of the Treasury, may direct an industry to exercise its power over the appointment of the auditors of any of its wholly-owned subsidiaries in a particular manner, either as to a particular person to be appointed or class of persons.



(v) Auditors appointed under (iv) above to be a member either of one or more bodies or accountants established in the United Kingdom and recognised for the purposes of section 161(1)(a) of the Companies Act 1948 by the Secretary of State or a person authorised under Section 161(1)(b) of that Act; a Scottish firm to be so appointed if each of the partners therein is qualified to be so appointed.

(vi) Auditors appointed under (iv) above to have right of access at all times to the books and accounts and vouchers of the Corporation and be entitled to require from the officers of the Corporation such information and explanation as are necessary for the performance of the duties of the auditors.

(vii) Duty on the subsidiary, and its auditors, of the Corporation to give to the auditors of the Corporation such information and explanation as those auditors may reasonably require for the purpose of their duties as auditors of the Corporation. Duty on the Corporation, if required by its auditors to do so, to obtain such information and explanation as aforesaid.

(viii) As soon as accounts kept and statements prepared have been audited, Corporation to send Secretary of State a copy of the statements; copies of the statements of accounts for those subsidiaries as the Corporation, with the approval of the Secretary of State and consent of the Treasury, may determine; copies of the statements of accounts of each subsidiary of the Corporation except for such exclusions as the Secretary of State, with the consent of the Treasury, may specify by notice in writing; and a copy of any report made by the auditors on the statements or accounts of the Corporation. Secretary of State to lay copies of all statements and any report on the statements or accounts before each House of Parliament.



(ix) Duty on the Corporation to make to the Secretary of State, as soon as possible after the end of each accounting year, a report on the performance of its functions during that year.

(x) Report made in (i) above to include such clauses of information as the Secretary of State may specify in writing and any direction given by the Secretary of State during the year unless publication of any such direction thought in his opinion to be against the interests of national security or commercial confidentiality.

(xi) Secretary of State to lay a copy of each report received by him in pursuance of this clause before each House of Parliament.



4 Financial Objectives

(i) Duty on the Secretary of State with the approval of the Treasury and after consultation with the Corporation to determine financial objectives for the Corporation and its wholly-owned subsidiaries. Such objectives may be for different periods and relate to different assets and activities of the Corporation and may be varied or revoked. The power to be exercisable by Direction.

(ii) The Corporation shall conduct its affairs with a view to achieving any financial objectives currently in force.

Note Present breakeven duties will be repealed.



5. Appointments, Loss of Office and Compensation of Board Members

In respect of new appointments:

(i) Each member of the Board of each industry shall be appointed by the Secretary of State and shall hold and vacate office in accordance with the terms of his instrument of appointment; on ceasing to be a member, he shall be eligible for reappointment.

(ii) Power for the Secretary of State to terminate the appointment of a member by giving to him not less than twelve months' prior notice in writing. Notice may be given without a reason for it being specified. The instrument of appointment would provide for the payment of compensation by the industry to a member where:

(a) the appointment is terminated by the Secretary of State before the expiry period specified in the instrument of appointment; or

(b) notice of an intention not to reappoint the member after the expiry of the period of appointment is not given within six months or such time as specified in the instrument of appointment.

Where a person ceases to be a member of an industry other than those circumstances above and there appears to the Secretary of State special circumstances which make it right for that person to receive compensation, the Secretary of State with the consent of the Treasury may direct an industry to pay such compensation as the Secretary of State with the approval of the Treasury may determine.

(iii) A member may resign his office by giving to the Secretary of State either three months' notice in writing or such shorter notice as he may approve.



(iv) Power for the Secretary of State, if he is satisfied that a member of an industry:

(a) has been absent from meetings of the industry for a period longer than three consecutive months without the permission of the industry;

(b) has become bankrupt or made an arrangement with his creditors;

(c) is incapacitated by physical or mental illness;  
or

(d) is otherwise unable to unfit to discharge the functions of a member;

to declare vacant the office of the member. The Secretary of State may specify in the instrument of appointment other grounds for declaring vacant the office of a member.

(v) Each industry shall pay to their members only such remuneration as may be determined by the Secretary of State with the consent of the Treasury. The Secretary of State with the consent of the Treasury may determine the arrangements for the payment by the industry of a pension in respect of a person who is or has been a board member of that industry.



## 6. Restructuring and Asset Disposal

(i) Corporations to have the power to set up wholly owned subsidiaries under the Companies Act and with the consent of the Secretary of State to be able by scheme to transfer property, rights and liabilities to them or between one such subsidiary and another. Corporations to be able to increase the capital of such subsidiaries.

(ii) With the consent of the Secretary of State and the approval of the Treasury, a Corporation may provide for an employee share scheme to be established for any subsidiary established under the Companies Act and for shares to be transferred into such schemes without consideration.

(iii) Corporations to require the consent of the Secretary of State and the approval of the Treasury before disposing of equity in wholly or partly-owned subsidiaries and the Secretary of State may require all or part of any consideration arising on disposal to be paid by the Corporation into the Consolidated Fund. Such equity not to be sold other than with such consent.

(iv) The Secretary of State may after carrying out such consultations as he thinks fit, direct a corporation and its wholly owned subsidiaries in such manner as he specifies, to set up wholly owned subsidiaries and to require property, rights and liabilities to be transferred to them or between them. Power for the Secretary of State with the approval of the Treasury to direct corporation and its wholly owned subsidiaries to dispose in such a manner, at such a time, and for such purposes as he specifies, of all or part of the equity of wholly owned subsidiaries, all or part of the equity held in partly owned subsidiaries, or such property, rights and obligations as he specifies. He may by order transfer to himself or to such persons as he specifies all or part of the share capital of a wholly owned subsidiary, all or part of the equity held in partly owned subsidiaries, or specified property, rights and



obligations, and, in consideration of this, pay out of money provided by Parliament such sums as he specifies. Power for the Secretary of State to sell or otherwise dispose of such shares, property, rights, or obligations on such terms as he, with the approval of the Treasury, thinks fit and to pay any receipts into the Consolidated Fund.

(v) Power for the Secretary of State, after consultation with the Corporation to direct the Corporation to discontinue any activity either wholly or to a specified extent; not to extend any activity or not to extend it beyond specified limits; and to exercise its control over any wholly owned subsidiary so as to cause the subsidiary to discontinue any activity either wholly or to a specified limits. An industry or its wholly owned subsidiaries to require the consent of the Secretary of State before acquiring an interest in the capital of any company in which the industry or its wholly owned subsidiaries do not already hold an interest or to extend any interest presently held.

(vi) The Secretary of State when exercising his powers set out above to have due regard to the interests of creditors.



W. I. P. Day



AT THE OFFICE

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20 JUL 1984



Y SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switsfwrdd)  
01-233 (Llinell Union)  
6106  
Oddi wrth Ysgrifennydd Gwladol Cymru



NDPM  
AT 16/7

CC NO

WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switchboard)  
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6106  
From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

13 July 1984

*D Name*

with request  
if required.

Thank you for copying to me your letter of 19 June to Peter Rees proposing legislation on the English Industrial Estates Corporation.

I agree in general with your proposals. However, your suggestion that the Corporation be empowered to borrow, presumably in Sterling, from persons other than the European Commission or European Investment Bank would, in fact, result in the EIEC having wider powers than the Welsh Development Agency. The Agency can borrow in Sterling for capital purposes only from the National Loans Fund, European Commission or EIB. It would be reasonable to introduce similar treatment and, if you and colleagues agree, I will ask my officials to get in touch with yours to investigate the possibility of including a provision covering the WDA in the EIEC legislation.

Copies of this letter go to Peter Rees and colleagues in E(A) Committee.

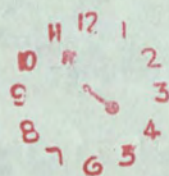
*J a*

*John*

Norman Lamont Esq MP  
Minister of State for Industry  
Department of Trade and Industry  
1-19 Victoria Street  
London  
SW1H 0ET



16 JUL 1984





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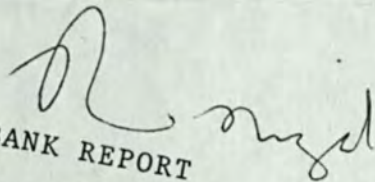
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01 211 6402

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

9 July 1984

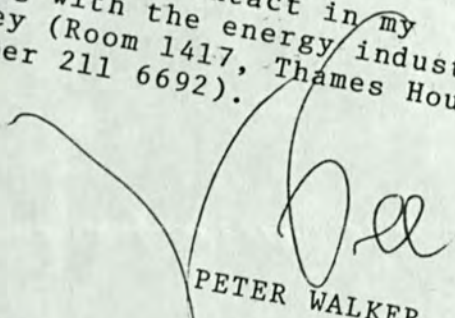


EWBANK REPORT

Thank you for your letter of 26 June.

I am glad you recognise that sponsor departments must be fully involved in the assessment of this Report.

The Group's central point of contact in my department for dealing with the energy industries will be Mr John Whaley (Room 1417, Thames House South, telephone number 211 6692).



PETER WALKER

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Nat Ind Policy Pt 9





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P.01328

PRIME MINISTER

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Nationalised Industries'1984  
Investment and Financing Review:

E(A)(84)36

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BACKGROUND

This memorandum by the Chief Secretary, Treasury, with the accompanying note by officials, is the first stage in consideration by Ministers collectively of the investment programmes and financing requirements of the nationalised industries in the context of the public expenditure survey. Its coverage is much the same as last year. The main difference is that London Regional Transport is included for the first time. It is assumed that the warship-building part of British Shipbuilders will be privatised at the end of 1985-86; but the National Bus Company is assumed to be part of the public sector for the whole of the period considered (ie up to the end of 1987-88).

2. The main figures are set out in the Annex to this brief. The industries are bidding for additional external finance of £774 million in 1985-86 and £1313 million in 1986-87. The bid for 1987-88 is nearly £1300 million above the base-line; but in that year the base-line is an arithmetical construction produced by increasing all figures for 1986-87 by 2½ per cent. There are also bids for additional finance for the Redundant Mineworkers' Pension Scheme (RMPS): and additional £115 million is sought in 1985-86, and smaller amounts in later years.



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3. There is a small increase in forecast capital requirements for each of the three years: about £360 million in 1985-86, and about £175 million in each of 1986-87 and 1987-88. But the main cause of the increase in external financing requirements is the forecast reduction in internal resources by over £400 million in 1985-86 and over £1100 million in each of 1986-87 and 1987-88.

4. The fall in forecast internal resources is common to most industries; the most notable are the following.

Change in internal resources

	£ million		
	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>
NCB	- 108	- 224	- 33
Electricity (E & W)	- 116	- 235	- 556
BGC	- 51	- 366	- 408
BSC	- 49	- 194	- 166
BRB	- 23	- 72	+ 7
Total	- 412	- 1138	- 1128

A part of the reductions for some industries (notably electricity and gas) is due to the tax changes in this year's Budget. In the case of Electricity (E & W), the additional Corporation Tax liability due to the Budget is £175 million in 1986-87 and £27 million in 1987-88. In the case of the BGC there is an increased liability due to the Budget of £100 million over the two years 1985-86 and 1986-87.

5. The Chief Secretary points out that if the industries' bids were accepted it would slow down, or even halt, the expected improvement in their external financing and jeopardise the Government's public expenditure plans. In the light of the difficult prospect for public expenditure this year the Chief Secretary proposes that he should seek





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reductions below base-line of £250 million in 1985-86, £500 million in 1986-87, and £1000 million in 1987-88: in other words, cuts in what the industries have bid for of over £1 billion in 1985-86, about £1.8 billion in 1986-87 and about £2.3 billion in 1987-88. This should preferably be done by reducing the current costs; where this is not enough to secure an adequate rate of return on assets prices will have to be increased. There should also be reductions in bids for working capital; investment proposals without clear justification should be cut back; and industries should be pressed to sell assets, especially surplus land.

6. If the Chief Secretary's proposals are approved, officials would hold discussions with the industries; the Chief Secretary would report back in the early Autumn after bilateral discussions with sponsoring Ministers.

#### MAIN ISSUES

7. It is unlikely that the Sub-Committee will dissent from the proposition that a significant reduction in the total of bids from the industries is necessary: as the Chief Secretary says, many of the figures are no doubt little more than opening bids from the industries. The main issues are:

(i) Is the scale of reductions proposed by the Chief Secretary a reasonable target?

(ii) Are his suggested ways of cutting back the bids - especially so far as they may entail price increases larger than the industries have proposed - acceptable?

#### Scale of reductions

8. The Chief Secretary's proposals are ambitious. Last year, at a similar stage of the survey, he proposed that the





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Move is being sought  
this year from a smaller pd  
as BT and BA will be out of the  
nationalised industry family in 1985-86.

target should be a reduction in bids from the industries of about £1 billion a year. His proposal for the first year of the current survey period is of much the same size; but his proposals for years two and three of this survey go a good deal further. As always, there is a balance to be struck. On the one hand, you will probably wish to give the Chief Secretary as much backing as possible in his discussions with sponsoring Ministers. It is also desirable to set demanding external financing limits (EFLs) so as to maximise the pressures for economy. On the other hand, it stores up trouble if public expenditure plans are laid on an unrealistic basis. Nationalised industry EFLs are a less effective form of control than departmental cash limits; and if the base-line eventually agreed is too optimistic it will not hold. There are many uncertainties: in particular, the miners' strike is bound to have serious adverse effects on the finances of the National Coal Board and may have similar effects on others, notably steel. The NCB has bid for nearly £600 million additional external finance over the three years compared with base-line; that could well prove to be an underestimate.

9. It may be that the right course will be to accept the Chief Secretary's proposals as a basis for opening discussions with the industries but to bear in mind, in other parts of the survey, the the proposed savings may not be delivered in full.

Tax changes

10. Some industries have asked for additional external finance in order to cope with the effects of the changes in corporation tax introduced in this year's Budget: the changes have, among other things, substantially brought

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forward incidence of tax payments for some industries. Some Ministers may suggest that it would be unreasonable to require the industries to find savings in order to offset these effects. If the industries raise additional external finance to meet their higher tax liabilities there is no overall effect on the public sector borrowing requirement. To refuse to allow them to raise such finance could therefore be argued to be a backdoor way of cutting the PSBR.

Flag A 11. The Chief Secretary's letter of 29 May (Copy attached) recognises that there is something in this argument, but points out that companies in the private sector would have to cope with the tax changes and might respond by cutting back current costs or reappraising investment programmes. On the other hand, to the extent that the Budget changes simply bring forward liabilities, companies might well decide to respond by additional short-term borrowing to meet what they could reasonably regard as a temporary cash drain. It will no doubt be pointed out that if the Budget changes had gone the other way, it seems quite likely that the Chief Secretary would have pressed for full offsetting reductions in EFLs. Nevertheless, the Sub-Committee will probably feel that it would be right as the Chief Secretary proposes, to consider each industry case-by-case and to press the industries hard to cut back on current costs.

#### Prices

12. It should be possible to persuade quite a few industries to take a more optimistic view of their internal resources by pointing out that their economic assumptions are quite pessimistic. Tables F and G in the report by officials show that most industries are assuming fairly slow economic growth (about 1½ per cent a year after 1984-85) and much





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higher inflation than the Government (over 6 per cent a year on average). On the other hand, past experience does not suggest that the industries will be successful in avoiding virtually any increase in the real earnings of their workforce (Table H), however justified on merits such an outcome might be.

13. It therefore seems likely that, as E(A)(84)36 hints, if the target is to be achieved, price increases will have to be significantly higher than the industries are assuming. Table I in the report by officials shows that the electricity supply industry in England and Wales is assuming a cumulative price reduction in real terms of about 7½ per cent over the period 1984-85 to 1987-88, and gas a real reduction of over 3 per cent, concentrated in the first two years. The Post Office and London Regional Transport are also assuming real reductions.

14. Given the low rate of return on assets of many public utilities there is clearly a good case for price increases. However, you will recall the serious difficulties with the gas and electricity industries at the end of the last public expenditure survey. The Secretary of State for Energy, in particular, is likely strongly to resist any suggestion that gas and electricity prices should be increased in real terms, or more rapidly than the industries themselves are willing to accept. No doubt he will point out that there is a review of gas prices currently in progress.

*we've not heard much of this recently* ←

15. It may be unnecessary to resolve any disagreement at tomorrow's discussion. However, in view of the importance of the subject, both intrinsically and because of the implications for the survey, you will wish to encourage Mr Walker to bring forward proposals on gas prices as soon



Also relevant is whether electricity prices are raised  
this year to cover the cost of oil burn.

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as possible and to hold any necessary discussion of  
electricity prices with the Chief Secretary in good time  
for the issues to be resolved in the context of the  
survey.

#### HANDLING

16. You will wish to ask the Chief Secretary, Treasury  
to introduce his memorandum. You might then invite the  
Ministers with sponsoring responsibilities - Secretaries  
of State for Energy, Scotland, the Environment, Trade and  
Industry, and Transport - to comment, both generally and  
from the standpoint of the industries for which they are  
responsible. The Chancellor of the Exchequer may wish to  
comment on the economic assumptions, as well more generally;  
the Secretary of State for Employment may wish to comment  
on the pay assumptions.

#### CONCLUSIONS

17. You will wish the Sub-Committee to reach conclusions  
on the following.

(i) Whether the target for aggregate  
reductions in the external financing requirements  
of the nationalised industries should be as  
proposed by the Chief Secretary, Treasury, that  
is, reductions on base-line of £250 million in  
1985-86, £ 500 million in 1986-87, and  
£1000 million in 1987-88.

(ii) Whether the guidelines for discussion with  
the nationalised industries should be as suggested  
in paragraphs 6 to 11 of E(A)(84)36.

(iii) Whether officials should pursue discussions  
with the industries on the basis of (i) and (ii)  
above, with a view to the Chief Secretary's reporting  
back in the Autumn after bilateral discussions with  
sponsoring Ministers.



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## IFR : BASELINE AND BIDS

ANNEX

	<u>1984-85</u>	<u>1985-86</u>			<u>1986-87</u>			<u>1987-88</u>		
	<u>Forecast</u>	<u>Baseline</u>	<u>Bid</u>	<u>Difference</u>	<u>Baseline</u>	<u>Bid</u>	<u>Difference</u>	<u>Baseline</u>	<u>Bid</u>	<u>Difference</u>
<u>EXPENDITURE</u>	<u>Outturn</u>									
EXPENDITURE										
Fixed Assets	5456	5240	5405	+ 165	5155	5264	+ 109	5282	5312	+ 30
Other	- 298	- 199	- 2	+ 197	- 110	- 44	+ 66	- 111	28	+ 139
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
	5158	5041	5403		5045	5220		5171	5340	
	-----	-----	-----		-----	-----		-----	-----	
FINANCING										
Internal resources	2563	3670	3258	- 412	4713	3575	- 1138	4832	3704	- 1128
External financing	2595	1371	2145	+ 774	332	1645	+ 1313	339	1636	+ 1296
	-----	-----	-----		-----	-----		-----	-----	
	5158	5051	5403		5045	5220		5171	6340	
	-----	-----	-----		-----	-----		-----	-----	
RMPS and other Schemes		377	495	+ 118	382	397	+ 17	393	412	+ 19

CONFIDENTIAL



A



Treasury Chambers, Parliament Street, SW1P 3

The Rt Hon Peter Walker MP  
Secretary of State for Energy  
Thames House South  
Millbank SW1P 4QJ

29 May 1984

*Alan Peter*

**NATIONALISED INDUSTRY EFLs**

My letter of 15 May said that I was considering how best to deal with the nationalised industries' tax liabilities within the overall control framework; and that I would write to colleagues about this as soon as possible.

2. In my earlier letter to you I made it clear that I saw no need for adjusting the industries' EFL baselines for the time being (other than to take account of the abolition of NIS). More generally having considered the question further I am sure that we should not contemplate a general baseline uplift which would offset entirely any increased tax liability. It cannot be right that the industries, which are supposed to react commercially to change in their external environment, should in contrast to private sector companies be entirely sheltered from the effect of Corporation Tax changes. Companies in the private sector will be considering a range of possible responses to the Budget measures of which some, such as cutting back on current costs or reappraising the scale and direction of their investment, are clearly relevant to the nationalised sector. As a minimum we should be looking for an even greater determination to cut back on current costs as vigorously as possible.
3. The effect of the increased Corporation Tax liabilities on the nationalised industries arises mainly in the later years of the IFR (1986-87 and 1987-88); the effect in 1985-86 is in general quite small. I recognise that for the later years it may be difficult for some industries to absorb the increased liability in full. That is a matter which needs to be considered by officials case-by-case in the light of the particular circumstances of each industry affected. To deal with increases in the tax liabilities in this way is consistent with the way we handle other unforeseen changes in the industries' financing requirements; and why we reappraise the position for the later years in successive IFRs. So the scale of any foreseeable tax liability will be one of the factors to be taken into account when we look at the overall financing bids in July in the context of public expenditure as a whole.
4. I am copying this letter to other nationalised industry sponsoring Ministers.

*Peter Rees*

PETER REES





10 DOWNING STREET

Prime Minister

Mr. Tiesbit hopes to stay on for ten minutes after E(A) to put you in the picture on shipbuilding. In turn you can ask him about GEC/BAC. Has the trail gone cold or is something happening?

AT

2/7



CONFIDENTIAL

2 July 1984

PRIME MINISTER

NATIONALISED INDUSTRIES INVESTMENT AND FINANCING REVIEW:

E(A)

Peter Rees is right to seek major cuts in the proposed External Financing Limits for the nationalised industries. His five points in the conclusion should be warmly supported.

To add force to his case that tighter targets are realistic and should be delivered, you could also argue:

1. The large unsuccessful conglomerate businesses (British Steel, National Coal Board, BR) still have considerable scope over the next 2-3 years for selling off the more profitable parts of their enterprises. This would be good for jobs, innovation and growth in these smaller businesses, and would bring in proceeds to help the Exchequer. Couldn't NCB sell off its solid fuel distribution, <sup>Energy say this has now been sold</sup> builders' merchandising, brick manufacture and consultancy subsidiaries and associates? Couldn't BSC sell off more of its phoenix businesses in addition to selling Stanton and Staveley? And at British Rail, can't BREL and other ancillary businesses follow Sealink into the private sector quickly?

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2. All the industries have enormous scope for reducing current costs and improving profitability by improved productivity.
3. Price increases are a means of improving cash flow and profits. We should not, however, want to put nationalised industry prices up on average by more than the going rate of inflation.
4. We should, as the Treasury suggest, be extremely sceptical about many of the capital investment projects being put forward by nationalised industries. They have been wrong in the past in prophesying good returns, and are likely to be wrong in the future. The BR bid includes expenditure on the electrification of the East Coast main line, which remains a questionable proposition. The BR External Financial Limit is disappointingly high for 1985-86, bearing in mind the strategy agreed with Bob Reid to reduce the amount of PSO payments quite sharply over a 3-year period.
5. Working capital requirements should be hit much more heavily than they have been in the past. The proposals in the Annex represent modest progress or no progress at all.

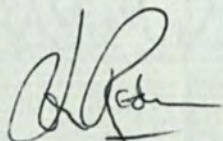
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Conclusion

The Treasury targets are very tough and will be hard-fought by the departments. In the end - particularly at the National Coal Board - there is likely to be an overrun compared with the tough Treasury objectives. Nonetheless, it is vital at this stage to put the monetary screws onto the nationalised industries, and to use them as a means of enforcing disposal of under-used assets, of ancillary businesses not related to their main activity, to squeeze working capital, and to flush out unproductive investment projects.



JOHN REDWOOD

CONFIDENTIAL





SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

Norman Lamont Esq MP  
Minister of State for Industry  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON  
SW1H 0ET

*Handwritten initials*

29 June 1984

*Dear Norman,*

Thank you for copying to me your letter of 19 June to Peter Rees about the proposed legislation affecting the English Industrial Estates Corporation.

I have noted the main proposals which will be contained in the Bill and I am content for my interests.

Copies of this letter go to Peter Rees and colleagues in EA Committee.

*Yours ever,*

*George*

*with request for required*





CONFIDENTIAL

P.01325

PRIME MINISTER

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Nationalised Industries' Bill:

E(NI)(84)6

BACKGROUND

Flag A

At their meeting on 26 April 1983 (E(NI)(83)5th Meeting) the Sub-Committee agreed that legislation should be prepared to reform the statutes affecting the financing of the nationalised industries. The legislation would deal with the coverage of statutory borrowing limits; powers to raise private finance; the claw-back of surplus funds; setting financial targets; the content and form of Reports and Accounts; and the creation and privatisation of subsidiaries.

- B 2. At their meeting on 17 January 1984 (E(NI)(84)1st Meeting) the Sub-Committee also agreed that appropriate provisions relating to the dismissal and compensation of nationalised industry board members should be included in the Bill.
3. There is provision for the Bill in the legislative programme for the 1984-85 Session of Parliament.
4. Since the two previous meetings of the Sub-Committee there have been further discussions at both official and Ministerial levels, with the following results.

(i) Reform of financial statutes

On 17 May the Chief Secretary, Treasury wrote to the Secretary of State for Energy putting forward detailed proposals. For the most part these





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had already featured in the papers previously considered by E(NI) or were logical developments. But an important new proposal was that power should be taken to allow sponsoring Ministers to require the holding of a 'value for money' (VFM) audit. The Secretary of State for Energy replied on 29 May objecting to this proposal, and others; and raising the more fundamental question whether it would be right to proceed with the Bill at all. He suggested that the Bill might be perceived by some as a major extension of Government powers over the nationalised industries, and used by others as an occasion to press for even more powers than were proposed. The Secretary of State for Trade and Industry wrote on 4 June. He shared the misgivings of the Secretary of State for Energy about the Bill as a whole and the VFM proposals. Both he and other sponsoring Ministers also raised various detailed points.

Flagc 1

Whereas  
Secretary of State  
for the Environment C2

D

(ii) Board Members

E

On 18 May the Chancellor of the Exchequer wrote to the Secretary of State for Trade and Industry with detailed proposals on the appointment, dismissal and compensation of nationalised industry board members. Sponsoring Ministers have broadly accepted these proposals, subject to a number of points of detail.

F

5. Your Private Secretary's letter of 6 June asked the Chief Secretary to bring forward a paper on the matters covered in his letter of 17 May. The Chief Secretary's memorandum E(NI(84)6 responds to this request. It reaffirms the arguments in favour of the proposed Bill. It maintains the proposal for powers





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to require VFM audits as both justified in substance and likely to be tactically advantageous. However, it suggests a number of modifications to certain other proposals in an attempt to meet points made by other Ministers in the correspondence.

6. E(NI(84)6 suggests that, if the proposals in it are approved, details should be sent to the Nationalised Industries' Chairmen's Group (NICG) and an announcement made to Parliament. Details could then be discussed with the industries (there has so far been no consultation with them).

#### MAIN ISSUES

7. The main issues before the Sub-Committee are as follows.

(i) Now that the proposed Bill can be seen as a whole, should it be proceeded with?

(ii) If so, should it include powers to require a VFM audit?

(iii) Are the other detailed proposals in E(NI)(84)6 acceptable?

(iv) Consultations and announcements.

#### Case for the Bill

8. The case for the Bill is set out in paragraphs 2 to 7 of E(NI)(84)6. The case against has been stated by the Secretaries of State for Energy and Trade and Industry in their letters of 29 May and 4 June respectively: essentially, it is that the legislation will be regarded as an erosion of the industries' commercial freedom.





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9. The Chief Secretary is certainly right in claiming that virtually all the proposals in E(NI)(84)6 - apart from those relating to VFM audits, discussed below - have already been approved, at least in general terms, by the Sub-Committee in earlier discussions. However, some Ministers may feel that when it is set out in extenso the Bill seems less attractive than it may have done before. Moreover, it is probably fair to say that the Bill has two aspects, which have not always been clearly distinguished.

(i) Some of the proposed revisions are no more than the codification of existing law and practice: for example, the codification of borrowing powers. It is unlikely to be disputed that these are useful measures of reform which are unlikely to raise much controversy. Equally, they will not have much effect of substance.

(ii) Other proposals, such as those relating to VFM audit and ~~the~~ giving Ministers greater powers of direction in the context of privatisation (see Section 6 of Annex B to E(NI)(84)6) will have effects of substance: paragraph 5 of the memorandum claims that they will 'greatly ease the privatisation of subsidiary activities and the sale of individual assets' and 'strengthen the Government's legislative powers'. By the same token, they are much more likely to be the subject of objection from the industries and others.

It will be important for the Sub-Committee to be clear about the main underlying purpose of the legislation, and whether the achievement of that purpose justifies whatever controversy and criticism it is thought likely to raise.





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Value for money audits

10. It does not seem to be in dispute that it is desirable to encourage the development of VFM audits of the nationalised industries. The disagreement is more a matter of tactics.

(a) Vis-a-vis the industries Mr Walker and Mr Tebitt appear to be saying that a more informal approach will be preferable.

(b) Vis-a-vis Parliament Mr Walker argues that it would be better not to chance proposals which will inevitably be taken as conceding the principle but not going far enough on the details. Mr Rees argues, on the contrary, that the Government is bound to come under heavy pressure to include VFM provisions in the Bill and that it would be better to put forward, from the outset, a provision which the Government is prepared to defend.

Break-even duty

Flag G

11. The letter of 30 May from the Chancellor of the Duchy of Lancaster suggested that the original 'break-even duty' should be replaced (not supplemented) by a duty to meet a financial objective prescribed by the Secretary of State. It is in any event clear that if it is retained the 'break-even duty' will need re-definition to cover the case of industries which require continuing financial support (a point made by the Secretary of State for Trade and Industry in connection with British Shipbuilders). The Chief Secretary does not argue strongly in favour of both retaining the 'break-even duty' and taking power to prescribe financial objectives, but suggests that it would still be right to do so, on the grounds that dropping the break-even duty might be





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taken as a signal that the Government was relaxing the pressure on the industries. Since the financial objective given to a nationalised industry is bound to be more demanding than break-even, the Sub-Committee may feel that this argument is open to doubt. To the extent that it has force it could be met by requiring the Secretary of State to set a financial objective of at least break-even (subject to the points in paragraph 10 of E(NI)(84)6).

12. Mr Walker raised objection in his letter of 29 May to the possibility that performance aims and external financing limits (EFLs) might be given statutory force. The facts are as follows.

*but not electricity  
or gas where pricing  
is most controversial.*

(a) The legislation applying to several industries already allows the sponsoring Minister to set 'financial objectives' with statutory force. (See section 5 of Annex A to E(NI)(84)6).

(b) The Chief Secretary proposes to apply similar provisions to all industries.

(c) Technically, the words 'financial objectives' would cover performance aims and EFLs, which could therefore be given statutory force.

(d) But Treasury Ministers do not intend to propose any change in the existing arrangements, under which performance aims and EFLs are agreed informally (ie not under statute) with the nationalised industries.

Other detailed points

13. Other detailed points raised by Ministers are discussed in Annex C to E(NI)(84)6. Most of them include





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attempts to meet the concerns expressed in the correspondence. There seems to be nothing to add to the points in the Annex.

Consultations and announcements

14. So far, there has been no discussion of the proposals with the NICG. If Ministers decide to proceed with the Bill the NICG will certainly have to be consulted. But there are two points that the Sub-Committee may wish to discuss.

(a) Basis of consultation

Should the NICG be consulted only about the details, it being made clear to them that Ministers have decided the principle and will not change their minds; or should the possibility of second thoughts on the principle be left open? To make it clear at the outset that Ministers have made their minds up before listening to the NICG may be provocative. On the other hand, there will be little time to engage in a fundamental debate; and the proposals, so far as they are not mere codification, involve questions of policy rather than day-to-day management; policy is a matter for Government.

(b) Parliamentary announcement

The Chief Secretary proposes to announce the Government's intentions to Parliament. Some Ministers may question whether this is necessary. It is true that no public announcement has yet been made; and it might seem odd, or even discourteous to Parliament, to introduce legislation next Session without previous notice. On the other hand, an announcement of firm intentions without prior consultation with the NICG might increase the risk of difficulties with the Chairmen.





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HANDLING

15. Although it is difficult to divorce the question of the desirability of the proposed Bill from the question of what it should contain, it is likely to be convenient at least to try to separate out the more detailed points that have been raised in the correspondence. The only point of detail that seems likely to influence views are the general desirability of the Bill is whether it should include powers to require VFM audits. You might therefore devote the first part of the discussion to those two questions, and then turn to points of detail.

Desirability of Bill and VFM powers

16. You will wish to invite the Chief Secretary, Treasury to introduce the discussion, and the Secretary of State for Energy and the Secretary of State for Trade and Industry to develop the arguments they have advanced in previous correspondence.

Other points

17. It would probably be most convenient to work seriatim through

(i) paragraphs 9 to 12 of E(NI)(84)6 on the break-even duty and financial objectives;

(ii) the separate paragraphs of Annex C to E(NI)(84)6.

In each case you might ask whether the proposals in the memorandum are accepted; only if objection is raised will discussion be needed.

Consultation and announcements

18. The final part of the discussion might then consider on what basis consultations with the NICG should be





CONFIDENTIAL

conducted and whether there should be a Parliamentary announcement of the Government's intentions. The Chief Secretary, Treasury might be invited briefly to elaborate his proposals; any or all of the Ministers with sponsoring responsibilities may wish to comment.

CONCLUSIONS

19. You will wish the Sub-Committee to reach conclusions on the following.

(i) Whether the proposed Bill should be proceeded with.

(ii) If so, whether it should contain powers for sponsoring Ministers to require the carrying out of value for money audits.

(iii) Whether the proposals in E(NI(84)6 are accepted as regards -

(a) break-even duty and financial objectives;

(b) the matters discussed in Annex C to the memorandum.

(iv) The basis of consultation with the Nationalised Industries' Chairmen's Group.

(v) Whether the Government's intentions should be announced to Parliament.

*PLG*  
P L GREGSON  
Cabinet Office.  
28th June, 1984



u 40 C2  
2 MARSHAM STREET  
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref: 28 June 1984

Dear Peter,

## NATIONALISED INDUSTRIES BILL

It will not unfortunately be possible for a DOE Minister to be at the meeting on 29 June and I am therefore writing to let you know my views on your paper E(NI)(84)6. I would be grateful if these points can be taken into account in the discussion.

There can be little doubt that the Bill, when it becomes public, will be regarded as a major piece of legislation and we should therefore be prepared to explain and defend it in those terms. We must also recognise that some of the provisions will be controversial. Parliament is unlikely to be reassured to be told that the powers proposed for the Bill are nearly all discretionary, and that it will be left to individual Secretaries of State to decide whether to invoke them or not. Some clear statement of the Government's general policies in relation to the main powers will be expected, particularly as the Bill provides for their exercise by direction rather than by parliamentary procedure, a feature which itself is likely to give rise to criticism as I have commented earlier.

I would expect the powers to claw back surplus funds to be particularly seized on by Parliament and the public, and I am concerned about this in relation to water authorities. We have unfortunately not yet reached agreement on a longer term strategy for the water industry but it would clearly help to allay fears about unreasonable use of these powers as far as the water authorities are concerned if we had achieved and announced such a strategy. Conversion of reserves to dividend capital and similar changes could then be presented as a logical and reasonable consequence of that strategy. Otherwise I have no doubt that our opponents will quickly put it about that the purpose of the legislation is simply to 'tax' water.

As you know, our officials have found that your proposals are not sufficient to enable a full restructuring of the water authorities' capital as proposed by Professor Carsberg. If we decide to proceed with the Bill, I would like the position to be studied further with a view to removing as many of the obstacles as possible. It would clearly be unsatisfactory if your general legislation did not obviate the need for separate statutory provision if we find the Carsberg reform to be desirable.



I have nothing to add to my letter of 13 June about appointment, dismissal and compensation of board members.

Your proposals raise no particular problems as far as the British Waterways Board is concerned.

In conclusion, my main point is that we should not embark on this legislation lightly: it will attract criticism and we will need to be ready with good answers. So far as water is concerned the two main points are an agreed strategy and sufficient provision to achieve the Carsberg reform. Unless these points can be met, I may need to ask that the water authorities be excluded from the scope of the Bill.

I am copying this letter to the members of E(NI), to Nicholas Edwards and Michael Jopling because of their interest in water authorities, and to Sir Robert Armstrong.

Your ever  
Patrick

PATRICK JENKIN



PRIME MINISTER

ENI: NATIONALISED INDUSTRIES BILL

I have discussed this paper with the Chief Whip who has asked me to convey his concerns to you.

(i) In toto, the Bill is a major one which provides ample territory in which the Opposition can adopt guerilla tactics, e.g. by raising a host of amendments on specific industries. The Chief Whip feels the Bill could absorb a great deal of legislative time, possibly requiring a guillotine. To a degree, this is an objection to the course of an Omnibus Bill rather than the alternative of peacemeal amendment to NI statutes as opportunities arose. The decision in favour of an Omnibus Bill was taken consciously by ENI in April last year though whether they fully appreciated the nature of the Bill at the time is open to question.

(ii) The Chief Whip is worried that the proposal to provide statutory backing for financial targets, should agreement fail to be reached with the industry, could rebound on the Government. If for example, the Government were seeking higher gas or electricity prices, either for fiscal reasons or as part of a policy of economic pricing, it has to persuade the industry to accept a higher target. As Mr. Walker pointed out last autumn there is no power for these industries to impose one. If statutory powers existed, there could be a tendency for industries to take popular decisions on their own credit but seek a direction from government for unpopular ones, thereby shifting the blame. The judgement to be made is whether this process is already happening to such an extent that the reserve power to make financial targets statutory does not represent a major change.

AG

28 June, 1984



PRIME MINISTER

I understand that you are discussing the Nationalised Industries Bill at E(NI) on Friday. I thought that, as background to your discussions, you should be aware of the need for urgency in finalising the content of the Bill.

As you know, next Session is a heavy one and the key to success is to get a good number of Bills off to a flying start at the beginning of the Session. The number of cases where this is looking unlikely is growing and I would not like another to be added. The original intention for this Bill was for instructions to be sent to Counsel by mid-May. I understand why this has not proved possible, but I am concerned that there should be no further delay as a result of a prolonged period of policy consideration or of consultation. It is important, as the Chief Secretary's memorandum makes clear, for this Bill to be ready for introduction at the beginning of the Session. I very much hope that we can achieve that.

I am sending copies of this minute to the members of E(NI), the Lord Privy Seal and to Sir Robert Armstrong.

how

27 June 1984



7 JUN 1984

COLOMBIA





NATIONALISED INDUSTRIES BILL

The Bill is to be welcomed. It will strengthen government powers to allow privatisation, improve audit requirements, simplify the legislative provisions and financial obligations imposed on nationalised industries, strengthen the powers for dismissal and compensation of board members, and enable the clawback of surplus funds generated by the industries.

Value-for-money audits. If the power to request these audits is left out of the Bill, there will be attempts to put some similar power - probably drafted in a less satisfactory way from the Government's point of view - into the legislation on the floor of the House.

---

Privatisation

We should test the strength of the Clauses allowing piecemeal privatisation. They should be strong enough to be able to carry out most of the gas privatisation we wish to do, without recourse to main gas legislation.

Our only minor quibble with the proposals is with the judgment that it is a good idea both to preserve an overall break-even duty, and to give Secretaries of State statutory

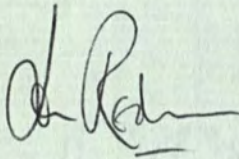
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F. R.

powers which enable a loss-making industry to hit the target. In addition, Secretaries of State will be able to set some other kind of financial target.

In practice, financial targets and obligations are going to be set by Secretaries of State, and it might be better just to have the single power that Secretaries of State set appropriate targets. The break-even duty is a traditional feature of the nationalised industry landscape, but has been ignored and violated more often than not.



JOHN REDWOOD





N1  
Policy

10 DOWNING STREET

Prime Minister

At the meeting with the  
Chancellor and CST it  
was suggested that the  
E(A) paper on Nationalised  
Industries (FR) should, like  
the paper on public expenditure  
and the economic prospect,  
be circulated on Monday.

In suggesting this, Treasury  
Ministers had overlooked that  
the E(A) meeting is next  
Tuesday, not next Friday.  
Circulation at before the  
weekend therefore is  
necessary.

AT

27/6



*Ni Policy*

*norm AF 27/11*



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1

27 June 1984

*Norman Lamont*

*will request if required.*

Norman Lamont copied his letter of 19 June to you about legislation on the English Industrial Estates Corporation to the members of E(A) Committee.

I would agree that the proposals are likely to be non-contentious. In particular they offer the prospect of increased employment in the countryside besides that offered by the primary industries such as agriculture, forestry and fishing. This is especially welcome to the increasing number of members of rural families seeking new forms of employment outside the traditional industries. On this basis I welcome the Bill and can agree to its introduction.

Copies go to Norman Lamont as well as to the other members of E(A) Committee and to Sir Robert Armstrong.

*Norman Lamont*  
*Michael Jopling*

MICHAEL JOPLING



CONFIDENTIAL



NRBPM  
AF

28/2

cc 100

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

26 June 1984

The Rt Hon Peter Walker MBE MP  
Secretary of State for Energy  
Thames House South  
Millbank  
LONDON SW1P 4QJ

*Am* *Wk*

*attached*

EWBANK REPORT

You wrote to me on 18 June about the arrangements for following up the Ewbank Report and asking for your officials to be involved with the Steering Group.

You will by now have received a copy of my reply of 21 June to Nicholas Ridley which covered a similar point. I should like to stress again that the essential follow-up work must be done by individual Departments in discussions with their industries. There is clearly no way in which the assessment of the Report could sensibly be conducted by the Treasury and DTI without the full participation of sponsor Departments. The function of the Steering Group is simply to help ensure that the Report's conclusions are followed up in a comprehensive, systematic and timely way.

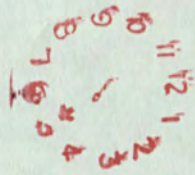
I am copying this letter to the recipients of yours.

*Nigel Lawson*

NIGEL LAWSON



NAT IND 9  
Policy



1866  
1984





Secretary of State for Trade and Industry

RESTRICTED

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5422

GTN 215)

(Switchboard) 215 7877

26 June 1984

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
London SW1

*D. Peter.*

NATIONALISED INDUSTRIES BILL

In my letter of 4 June I said I might write again with additional points. I understand that we shall soon be discussing in E(NI) the paper you have been preparing. In advance of the meeting, however, I wish to record my hope that the proposals on Accounts and Audit may be given further consideration.

2 Arthur Cockfield has most usefully drawn attention to these in his letter of 30 May, although I cannot agree with everything he says. Accounting principles are extensively regulated by statute, as well as by professional rules; and the responsibility for their application lies in law with company boards rather than auditors.

3 The overriding Companies Act principle is that accounts must give a true and fair view. I do not object to a Ministerial power (which in the British Airways case Arthur Cockfield lacked) to give directions on methods and principles to be followed in particular nationalised industries' accounts. But I should be sorry to see them depart from either the best professional practice or the cardinal statutory principles that apply to limited companies.

4 I am copying this letter to the Prime Minister, members of E(NI), the Lord President, the Lord Privy Seal and Sir Robert Armstrong.

*Norman Tebbit*  
NORMAN TEBBIT

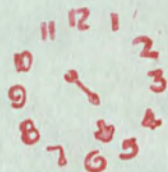
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NAT IND A 9

Policy

27 JUN 1984







CE 100

**CONFIDENTIAL**

2 PPI's.

2 MARSHAM STREET  
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

26 June 1984

Dear Norman,

OVERSEAS PROJECTS BOARD REPORT ON THE OVERSEAS ROLE OF THE  
NATIONALISED INDUSTRIES

I have seen the report of the Overseas Project Board along with your letter of 11 May to Nigel Lawson, which you copied to me. I agreed with the report's recommendations. I think we should bring them and the report to the attention of the Chairman of the Nationalised Industries, including the water authorities. If you feel that my Department can assist the Working Group you are proposing then we are ready to do so.

We have already gone some way towards meeting the recommendations of the report in relation to the water authorities. Last year, in the Water Act 1983, we took powers to enable water authorities to provide services and assistance to clients overseas. More recently we have given them guidance on how to do this. We gave assurances in Parliament, and we have made it plain to the water authorities that they are not expected to compete with the private sector in terms of the design, supervision and carrying out of work. They are uniquely placed, however, to advise on the management and operation of water undertakings and on the training of staff, and they may have a contribution to make on the importance of plant maintenance, which is often given low priority in developing countries.

Over a number of years we have been urging the water authorities to make more use of the private sector wherever it is economic to do so. That applies to the use of consultants for design and supervision, and to the use of contractors rather than direct labour for maintenance work. We have asked water authorities to adjust their contract procedures to assist specialist firms in developing techniques which will have application overseas. We have also requested them to use their purchasing power to encourage innovation and to provide a springboard for exports. I am far from satisfied, however, that we or the water authorities have done enough to provide a sound basis for overseas work, and I intend to re-examine what more might be done.

On the other hand the position of the water authorities in the water industry is different from that of the corporations in the gas, electricity, railway or telecommunication industries; and so the report does not get to the heart of the problem of how we can best expand water industry exports. As I have said, the water authorities already make considerable use of private sector consultants to design and manage their major construction projects. Almost all of their plant and equipment is bought in from plant contractors and suppliers and is not uniquely designed. And civil engineering contractors carry

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out the great bulk of the construction. All of these groups of firms undertake work overseas, and the consultants have for some years done very well. However, the British Water Industries Group (BWIG) have been concerned at their inability to find British lead contractors for a high proportion of the opportunities which they identified through market intelligence. Plant contractors and suppliers have quite regularly to join forces with foreign firms in order to get business overseas. The firms of plant contractors and suppliers tend in any case to be quite small; there is little cohesion within their industry, and their earnings overseas are modest at about £70 million a year.

Nevertheless, I feel confident that as a nation we have the potential to do much better with our exports in the field of water and sewerage. I am therefore proposing to pursue matters in the following ways:

- i. to encourage water authorities to play a bigger part overseas, within the guidelines we have set on matters where they have the expertise - management operations and training;
- ii. to see that the water authorities are doing enough in the way they run their own businesses to help the private sector develop and sustain a bigger role overseas;
- iii. to see whether we can improve the links between BWIG, the civil engineer contractors and the suppliers in winning work overseas;
- iv. to examine ways in which the plant manufacturers might organise themselves better for overseas work.

I have asked Ian Gow to take the lead on this work within the Department, and we will seek to make progress as quickly as possible.

*Yours ever*  
*Pat*

PATRICK JENKIN

**CONFIDENTIAL**



Nat Ind Policy Pt 9



CONFIDENTIAL

*u/b*



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

*NBPM*

*AT 27/2*

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON SW1P 3AG

26 June 1984

*Dear Nigel*

OVERSEAS PROJECTS BOARD REPORT ON THE OVERSEAS ROLE OF THE  
NATIONALISED INDUSTRIES

Thank you for your letter of <sup>*attached*</sup> 21 June. Although I had hoped that I might be represented on the Steering Group, I appreciate the need to limit the size of the Group if it is to work effectively, and I note that this is something which the Nationalised Industries' Chairmen's Group would prefer.

I am pleased to have your assurance that the Steering Group recognise the need to work closely with sponsoring Departments, and that you expect the Group to be in touch shortly. Mr M S Staveley (Room S17/13; Tel. 212 5117) will be the official in my Department to act as the focal point of contact for the Group when dealing with those industries for which I am responsible.

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/ I am copying this letter to the Secretaries of State for Defence, Environment, Health, Energy, Trade and Industry, and to Sir Robert Armstrong and No 10.

*Nicholas Ridley*  
*Armstrong*

NICHOLAS RIDLEY

CONFIDENTIAL



*CE/NO*



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

21 June 1984

The Rt Hon Nicholas Ridley MP  
Secretary of State for Transport

*John Nick*

*NBRM  
A*

OVERSEAS PROJECTS BOARD REPORT ON THE OVERSEAS ROLE  
OF THE NATIONALISED INDUSTRIES

*Will comment  
if required*

I have seen a copy of your letter to Norman Tebbit of  
4 June on the Ewbank Report.

I realise that a number of Whitehall Departments have  
a clear interest in the report. But I think it sensible  
to keep the Steering Group, which I agreed the Treasury  
would set up, quite small and this is the preference of  
the Nationalised Industries' Chairmen's Group too.  
Whitehall is therefore represented by the Treasury and  
DTI as the two Departments with a central interest and  
the Chairmen's Group is also represented centrally.  
However, the essential follow-up work must be done by  
individual Departments in discussion with their industries  
and the Group will obviously have to work very closely with  
Departments at all stages.

The Steering Group has in fact already started work and I  
expect them to be in touch with Departments in the fairly  
near future.

I am copying this letter to the recipients of yours.

*Nigel Lawson*  
NIGEL LAWSON



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Y SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switsfwrdd)  
01-233 6106 (Llinell Union)

*Oddi wrth Ysgrifennydd Gwladol Cymru*



*NBM  
M 2116  
4/10*

WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switchboard)  
01-233 6106 (Direct Line)

*From The Secretary of State for Wales*

The Rt Hon Nicholas Edwards MP

21 June 1984

*De Rees*

NATIONALISED INDUSTRIES BILL

You will know that Patrick Jenkin copied to me his letter of 6 June concerning the apparent widening of proposals for the Nationalised Industries Bill.

I have much sympathy with his view that although there is the element of tidying up as between industries, there is cause for concern in respect of those proposals which, in my case, will affect the Welsh Water Authority. For example Patrick rightly draws attention to the proposal for restructuring the capital of water authorities - a matter upon which we have yet to deliberate and reach a conclusion. There is much to be said for bringing this into the open with full discussion with the water industry and thence into operation through primary legislation, particularly having regard to the present provisions extending through a number of statutes.

As to the detailed comments made in respect of break-even requirements, reserves, financial objectives and accounts and audit, I am quite sure it is essential that water industry accounts, that is those of the individual authorities, give "a true and fair view" with the retention of public rights of inspection. For my own part, because of the highly charged political nature of water in Wales I must counsel caution before proposing any steps which could be interpreted as weakening the parliamentary control of water authorities.

I have copied to Patrick and to the recipients of his letter.

*✓*

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

*Rees*



KATC AND Policy Pg







SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

CCND

NBPM  
AT 28/2

Norman Lamont Esq  
Minister of State for Industry  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON  
SW1H 0ET

Chief Secretary, Treasury.

28 June 1984

Dear Peter,

Thank you for copying to me your letter of 19 June to Peter Rees about the proposed legislation affecting the English Industrial Estates Corporation.

I have noted the main proposals which will be contained in the Bill and I am content for my interests.

Copies of this letter go to Peter Rees and colleagues in EA Committee.

Yours wis,

George

will request of Rees.



28 JUN 1984

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

01 211 6402

CC NO

NCP M

AS

19/6

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

18 June 1984

*Nigel*

EWBANK REPORT

*will consent if required*

I have seen Norman Tebbit's letter to you of 11 May about this Report, and your reply endorsing the creation of a steering group to examine the issues involved. I would certainly wish my officials to be involved in this.

It is in my view important that we should encourage the closest possible working relationships between the public and private sectors in export markets, and to use the considerable strengths of our energy industries to best effect in winning overseas orders.

The Report criticises various aspects of nationalised industry project design and management and procurement. Many of these criticisms are of course familiar. I am sure we should seek to build positively on existing areas of agreement.

Copies of this letter go to recipients of yours.

*Peter Walker*

**CONFIDENTIAL**

PETER WALKER



~~SECRET~~

NAT (ND)

PT 9 Policy

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cc: E(NI)

F 289



HMT

Gen.

DOE

D/Emp.

SO

CDHO

DTI

D/Trade

+ LPO

LPSO

CO

10 DOWNING STREET

From the Private Secretary

6 June 1984

cc: Nick Owen

NATIONALISED INDUSTRIES BILL

The Prime Minister has seen the Chief Secretary's letter of 17 May to the Secretary of State for Energy, the latter's reply of 29 May, and the Secretary of State for Trade and Industry's letter of 4 June. She believes that, although many of the items in the Bill are technical, a number do raise fundamental issues about the relationship between nationalised industries and Government. She is also under the impression that the provisions suggested by the Chief Secretary go further than was agreed in E(NI) in April last year.

BF

The Prime Minister would, therefore, like these questions to be considered at a meeting of E(NI). She would be grateful if the Chief Secretary could prepare a paper dealing with the substantive issues which need to be resolved, relegating the purely technical items on which there is agreement to an annex.

I am sending copies of this letter to the Private Secretaries to members of E(NI), Janet Lewis-Jones (Lord President's Office), David Morris (Lord Privy Seal's Office) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

John Gieve, Esq.,  
Chief Secretary's Office,  
H.M. Treasury.

289





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NAPM AT 6/6  
CCND

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref: J/PSO/14018 /84

Your ref:

6 June 1984

Dear Chief Secretary,

NATIONALISED INDUSTRIES BILL

Thank you for your letter of 17 May.

I am grateful for the opportunity to comment because the character of the Bill has clearly changed from the tidying up operation that was envisaged earlier on. I think we need to recognise that the Bill you now propose marks a major development in policy towards nationalised industries and we cannot assume that it will not be controversial, notwithstanding that there are precedents in one place or another for most of the proposals.

I am not sure if we previously considered fully the implications of introducing a comprehensive enabling measure and then leaving sponsoring departments to apply the provisions flexibly. This approach will leave much to be implemented through secondary legislation (which may not be without its own problems) and where the changes so effected are far-reaching there may be grounds for parliamentary objections to this method of proceeding. The proposal to restructure the capital of water authorities illustrates the point well: as you know, I think that this suggestion should be examined in detail but we have not yet concluded that it should be adopted. If we did decide to go ahead, it might be considered that such a fundamental change in the constitution of the water authorities would be an appropriate subject for primary legislation, not something to be tucked away in somewhat technical general legislation on reserves and claw back and then implemented by order or direction.

A second reservation I have is about the speed at which we are having to proceed to meet your time table. The existing water legislation is dispersed through a number of statutes so that it is a substantial task to check your proposals against the extant provisions. It is important too that consultation with the industries should be more than a mere formality so that sufficient time needs to be allowed for a properly considered response from them. If the Bill were simply a tidying up operation these points would matter less but as things are I think we should be prepared, if necessary, to delay introduction of the Bill to ensure that important points are not overlooked.



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Some more detailed comments on your letter and its enclosure as they affect water authorities and the British Waterways Board are as follows (officials will be in touch on these and other points):

Break-even: The power to direct what is properly chargeable revenue account here and in relation to financial target performance and reserve allocations needs to be framed so as to avoid possible conflict with the duty on industries to produce accounts which give "a true and fair view".

Reserves: Officials are urgently examining whether what you propose is sufficient to achieve a restructuring of the capital of water authorities as suggested by Prof. Carsberg. I have already raised the question whether it is right to try to achieve a major reform of that kind in this indirect way.

Financial objectives: The possibility of financial targets on bases other than net assets is interesting but I must draw attention to a significant weakening of parliamentary control of water authorities in what you propose. At present financial targets based on net assets require an order, subject to negative resolution; any other form of financial target would be subject to affirmative resolution. Your proposals require only a direction without reference to Parliament whatever the financial objective specified. This illustrates again the way what was intended to be tidying up may easily become controversial.

Accounts and Audit: For Companies Acts companies, the requirement that accounts show a true and fair view is overriding and I believe that this should also be the case for Public Sector Industries. This means that the power to direct the methods and principles by which accounts are drawn up needs to be framed in such a way that any such direction has regard to the true and fair duty imposed on the industries. Secondly we will need to preserve public inspection rights in relation to water authority audits in view of Ministerial Concessions in 1982. On VFM audit, we have included provision for an element of this in water authority auditors' terms of reference without statutory backing and this arrangement seems to be working well. There may be a useful model here if we wished to avoid legislation.

I apologise for the length of these observations but I do not think we should under-estimate the task we will be undertaking in putting forward this legislation.

I am copying to the recipients of your letter and to Nicholas Edwards and Michael Jopling because of their interest in the water authorities.

*Yours sincerely,*  
*Anderson* (Private Secretary)

for PATRICK JENKIN

(agreed by the Secretary of State and  
Signed on his behalf)



NAT IND Pt 8

Gray



1.

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PRIME MINISTER

cc Mr Owen

Nationalised Industries Bill

The Chief Secretary has written to colleagues on E(NI) seeking their agreement to the changes to be included in the Nationalised Industries Bill. He has invited colleagues to clear these in correspondence. Both Mr. Tebbit and Mr Walker feel the changes proposed raise fundamental issues about the relationship between nationalised industries and Government, and go further than agreed at the meeting of E(NI) last April under the Chancellor' chairmanship. For example it was agreed that:

"The legislation should not include powers for Ministers to set objectives and performance aims for nationalised industries."

The new proposals include powers for the relevant Secretary of State to set financial objectives. I know that the Chief Whip has reservations about this proposal.

It is a mistake to attempt to clear in correspondence what is in aggregate a major piece of legislation as though it were merely a collection of technical items.

ms  
ms

Agree a letter to CST asking him to prepare a paper for a meeting of E(NI)? The main body of the paper could incorporate substantive items on which there is disagreement and the purely technical items which are agreed could be relegated to an annex.

AF

5 June 1984





CC NO

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NBP  
AF 6/6

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1P 3AG

June  
5 ~~May~~ 1984

*Dear Peter*

NATIONALISED INDUSTRIES BILL

Thank you for sending me a copy of your letter of ~~17~~ <sup>19</sup> May to Peter Walker (which did not reach me until 23 May).

19 May 1984

I confirm that I am content with the outline of the proposed Bill and with your intentions on handling.

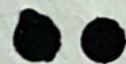
I am sending copies of this letter to the Prime Minister, members of E(NI), the Lord President and the Lord Privy Seal.

*Nicholas*

NICHOLAS RIDLEY



Not Incl for Pt 8





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WDO



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NBPM

AT 6/6

The Rt Hon Norman Tebbit MP  
Secretary of State for Trade and Industry  
Department of Trade and Industry  
1-19 Victoria Street  
LONDON SW1H 0ET

4 June 1984

*Dear Norman*

OVERSEAS PROJECTS BOARD REPORT ON THE OVERSEAS ROLE  
OF THE NATIONALISED INDUSTRIES

You sent me a copy of your letter of 11 May to the Chancellor on this subject, and invited my reactions.

I think this is a useful report and I am in general agreement with its recommendations. These will have to be examined in detail with the industries concerned, and I am glad to note from the Chancellor's letter of 21 May that the report is going to the Nationalised Industries Chairmen.

I note that they have proposed that a small steering group with joint representation should be set up to consider action arising out of the report, and I agree that this seems a sensible way to proceed. I would hope that in view of my Department's considerable interest in the subject - besides British Rail and the British Airports Authority, which are both mentioned in the report, London Transport, the Civil Aviation Authority and the National Bus Company are also affected - I can be represented both

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on the steering group and at the preliminary meeting of officials which you propose as the first step.

I am copying this letter to the recipients of yours.

*Yours truly*

*Nicholas*

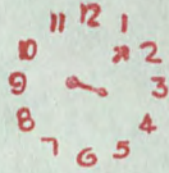
NICHOLAS RIDLEY

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05 JUN 1984







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Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422

GTN 215

(Switchboard) 215 7877

4 June 1984

CONFIDENTIAL

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

*Peter*

NATIONALISED INDUSTRIES

Thank you for your letter of 17 May (which was not received until 23 May) detailing the provisions now envisaged for the Nationalised Industries Bill. I have to say that, in view of the very little time afforded to me to consider these proposals, I must reserve the right to return to you with points other than those raised in this letter.

2 I have since seen Peter Walker's response to these proposals in his letter to you of 29 May and would wish to associate myself with the reservations he expresses about the way this legislation is developing. I note that in a letter of 12 May 1983 to Leon Brittan, Patrick Jenkin put up a reservation about the check list of changes proposed at E(NI) on 26 April 1983 and it seems that some of the provisions may have now been extended rather further than was then envisaged.

3 I share Peter Walker's concern that the package as a whole will be seen by the industries concerned as an erosion of their control and commercial freedom, and I agree that the hostility that such legislation is likely to attract is a high price to pay for the measure of statutory uniformity it will achieve.

4 I would therefore agree with Peter Walker's suggestion to stand back from the present proposals and consider the wisdom of going ahead on the basis proposed.





5 If we are to proceed, I certainly agree that we should consult our industries without delay. The embargo on consultation has in fact been a major stumbling block as far as we are concerned since it is not possible to determine the precise implications of some of the detailed measures proposed without some sort of a dialogue with the industry concerned. Added to this, there remains the difficulty of presenting them at the eleventh hour with a package of measures which is bound to be unpopular with them.

6 Apart from these general observations there are several points of detail in the present proposals which I would like to make.

7 I am not clear why Treasury's approval should be needed before the privatization steps outlined in (d) of your letter could be taken. This seems unnecessarily bureaucratic. In the case of the British Steel Corporation, where even consent of the Secretary of State to disposal has not been a requirement, Ministers have been able to dissociate themselves from criticism about the value of particular disposals. This is a degree of flexibility we would wish to retain given the difficulties BSC face in disposing of the majority of their assets.

8 The Bill proposes imposing a duty on each industry to ensure it breaks even. On past performance I believe it would be unrealistic to impose such a duty on British Shipbuilders. Moreover, I would question whether legislation is an appropriate means of controlling the future financial performance for an industry which operates in a highly competitive international market. We will be considering the long term viability of BS in the context of the forthcoming Corporate Plan. I should wish to take the outcome of this discussion into account before deciding whether it would be appropriate to require BS to comply with the break-even duty. As an alternative, we should consider making the break-even requirement discretionary.

9 I understand that the latest draft of Instructions to Counsel raises several points not covered in the Annex to your letter. I am particularly concerned that the power to specify other transactions which could be considered as borrowings against the limit has been transferred from the Secretary of State to the Treasury. I am not clear why this change has been made. Nor am I clear why the draft Instructions include a new provision - that the Secretary of State's consent and Treasury approval is needed before an industry can dispose of any property of a wholly owned subsidiary. Again this seems to be excessively bureaucratic.





10 I very much support Peter Walker's view that, for the reasons he stated, we should not include in the Bill any provision on Value for Money (VFM) audit, and I very much hope that this proposal can be dropped.

11 There may be further points of policy to be considered when consultations with the Nationalised Industries' Chairman's Group and officials have taken place.

12 I am sending copies of this letter to the recipients of yours and to Sir Robert Armstrong.

A handwritten signature in black ink, which appears to read 'Norman Tebbit'. The signature is written in a cursive style with a large initial 'N' and a long horizontal stroke at the end.

NORMAN TEBBIT



NAT (MS) Policy Pt 5...

05 JUN 1984





PART 8 ends:-

JR to AT

31.5.84.

PART 9 begins:-

SS/DTI to CST

4.6.84.



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