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PRIME MINISTER

MISC 22: Future of the National Enterprise Board

The paper before the meeting is Sir Keith Joseph's minute to you of 13th November and its attachment. MISC 22 was of course originally set up to handle the problems of Rolls-Royce. Sir Keith's minute extends, and indeed shifts, the immediate issue to the future of the present members of the National Enterprise Board. (We have not on this occasion invited Mr. Pym because his interests are really confined to Rolls-Royce alone.)

2. You are familiar with the background and I need not rehearse it. The immediate dilemma is one of politics and personalities. The key elements are:-

(a) Sir Kenneth Keith has agreed to leave the chairmanship of Rolls-Royce early in the New Year.

(b) Sir Frank McFadzean has agreed to replace him in that role.

(c) The Government has decided that Rolls-Royce should be removed from the tutelage of the NEB once the necessary powers are available, after the passage of the Industry Bill. Sir Frank McFadzean's acceptance of the Rolls-Royce chairmanship is dependent on this happening.

(d) The NEB have said semi-publicly that they will resign if Rolls-Royce is taken away from them.

(e) British Leyland want to jump on the Rolls-Royce bandwagon and also escape the tutelage of the NEB. Since Sir Keith Joseph's minute was written he has discussed the relationship of BL and the NEB with the BL Board. You will want a report on this meeting. Our understanding is that they confirmed their belief that, irrespective of personalities, it is an organisational mistake to subject one high-powered group of businessmen to the tutelage of another (it also adds an unnecessary link to the chain of responsibility: as present events demonstrate, the major political decisions about appointments and finance have to be taken by the Government, and the interposition of the NEB cannot relieve them of

that responsibility). They did not threaten to resign but it is relevant that, unlike the Rolls-Royce Board, that of BL is good and their views should carry weight.

(f) Sir Keith Joseph's minute implies that the retention of NEB control over Rolls-Royce is being elevated by the TUC into an issue of principle with threats of a withdrawal from the National Economic Development Council and its machinery if their attitude does not prevail. Since Sir Keith Joseph's minute was written the Economic Committee of the TUC has met - this morning - and a report of their attitude will be available either tonight or at tomorrow's meeting.

3. Although the immediate issues are those of personality (with Sir Leslie Murphy cast in the role of "chief villain") there are underlying and very important issues of public administration. It is agreed that Rolls-Royce should depend directly on the Department of Industry. Given the prospects of that company, especially under a new Chairman, this may not be too onerous a cross for Government to bear. But BL's problems are more horrendous and immediate. If the Government is to lose the buffer of NEB and take direct responsibility for that company, it needs to do so with its eyes wide open.

4. Equally, it will be important not to lose sight of the implications of the Government's decisions on the future of the NEB itself. Without both Rolls-Royce and BL it will be a very different animal - much diminished - from that envisaged by the Government in the summer. The Committee may decide that this does not matter. But it should do so as a conscious decision about good administration and not simply as a by-blow of the resolution of personality clashes.

5. This being said, the fact remains that the immediate problems are of personality. Matters have got to the point where important (or self-important) groups of powerful men are striking attitudes in public and are too freely seeking to get their way by threats of resignation. Such threats are as dangerous to Government as any other form of blackmail because, if acceded to, they diminish the Government's authority to run its own show in its own way through individuals of its own choice.

6. The questions the Group will have to resolve, therefore, are:-

(a) Is it prepared to stick to its earlier decision that Rolls-Royce should be extracted from the NEB? Sir Frank McFadzean was reported at an earlier meeting as saying that either this or the removal of Sir Leslie Murphy were the conditions of his acceptance of the chairmanship. Have matters gone too far for the latter to be still a viable option?

(b) If the answer to (a) is that the earlier decision stands, does the Group agree that it has no option but to accept the resignation of the NEB if offered - and indeed, given their semi-public posturing, has the NEB any choice but to resign? The question of "good order and discipline" is probably paramount here.

(c) Is the Group prepared to call the TUC's bluff on the NEDC? It would obviously be hard for the TUC to defend the withdrawal of co-operation on the grounds that it did not like the Government's, and Parliament's, decisions about the management structure of public assets. It would be equally hard for the Government to appear to give in to TUC pressure on a matter wholly within the Government's competence.

(d) Are the Government prepared to accept direct responsibility for BL? Or would they prefer, if it could be arranged, that the present BL/NEB relationship should be maintained under a revamped NEB despite the wishes of the BL Board?

(e) If the NEB does go, how quickly can it be replaced, and if so, by whom? (This is a secondary issue but worthy of urgent attention if an awkward hiatus with BL is to be avoided in the interval before the Industry Bill becomes law.)

(f) If the remorseless logic of (a), (b) and (c) above is unacceptable, is there any way the Government can extricate itself with honour?

HANDLING

7. You will want to ask the Secretary of State for Industry to explain the present position, including a report on his talks with the BL Board and for him and/or the Secretary of State for Employment to report on the attitude of the TUC. Thereafter you may want to concentrate discussion on the points I have identified in the preceding paragraph.

CONCLUSION

8. Subject to discussion, the most likely outcome is that the Secretary of State for Industry will be invited to confirm to the NEB the decision that Rolls-Royce is to be removed from their responsibility and tell them that if they feel obliged to resign on this account, so be it. The Group may also wish to invite the Secretaries of State for Industry and for Employment to contact the TUC, explain the Government's position and invite them to weigh carefully the consequences of over-reacting to a situation where they have no locus.

ROBERT ARMSTRONG

14th November, 1979