



Secretary of State for Industry

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

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

9 May 1979

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

Dear Geoffrey.

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

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

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

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

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

Yours,

Kear

THE NATIONALISED INDUSTRIES

Notes for Ministers

Nationalised Industry Policy

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

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

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

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

A. Treasury:

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

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

B. Leader of the House:

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

B.1. continued

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

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

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

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

KJ/SMC
6.4.79.



F-8 MAY 1979