N. Ridley (Industry) MP.

LSC (78) 71
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SECRET

COPY NO ..1....

POLICY FOR THE NATIONALISED INDUSTRIES

(A paper by Mr. N. Ridley)

1. Our policies for the Nationalised Industries should rest on the following principles:

(i) The financial duties of and limits on each industry must be clearly set, firmly held to by management and altered as little as possible by Government.

(ii) The industries must be exposed as far as possible and appropriate to the discipline of the market place. Where this cannot be done, they must be controlled by methods whose effects resemble those of market disciplines. Steps must be taken to ensure that no Corporation enjoys an unjustifiable degree of monopoly, exploits the consumer or undertakes activities better suited to private enterprise.

(iii) The tasks specific to each industry must be properly defined and agreed with that industry, uncommercial activities being identified and costed separately and paid for individually by the authorities.

(iv) Once these conditions are met management must be given more freedom to do its job with less outside interference, must be properly rewarded for success and face up to the consequences of failure.

(v) With proper financial disciplines and a reduction in the effective degree of monopoly, management and unions can be left to negotiate wages and conditions on their own. Where monopoly conditions are unavoidable, competition and monopoly policy and accountability for unit cost levels and improvements in those unit costs may also be important if the consumer is not to be "taken for a ride". However the general framework of our relationship with state industries must minimise the scope for confrontation.

To put these principles into effect will require the pursuit of the policies set out below.

2. Financial Control

(a) Required rate of return on capital employed (already known as the R.O.R.) This discipline largely lapsed in the last days of the previous Conservative Government and has not yet been fully reimposed by the present administration, although they have set new targets for some major industries. An R.O.R. should therefore be set for every industry as soon as possible. We recognise that different rates may be appropriate for different industries.

(b) Cash limits on recourse to external finance, (whether from the Government, the private sector or overseas). Cash limits should continue to apply to each industry, as at present, and the application of these limits improved in due course in the light of experience.

It would be important to establish that the required rate of return and the cash limit for each industry are binding targets which must be met.

(c) Investment control. The statutory annual review of investment would continue. But it would concentrate less on detail and act more as a focus for the preparation and agreement of the industry's corporate plan, and annual review of performance. In some cases it may be appropriate to review investment proposals over longer time scales than in the past.

3. Price Control

If there is evidence of exploitation by a nationalised state monopoly, either in the form of excessively high margins, or of discriminatory pricing and cross-subsidisation, the authorities should refer the matter to the Monopoly Commission. The powers needed for this already exist. Similar provision must be made for dealing with other abuses of consumer interests which lie outside the classical areas of monopoly policy. To do this it may be necessary to provide in due course for investigations by and references to the Office of Fair Trading.

4. Uneconomic Activities

When an industry is asked to undertake uneconomic activities other than those specified by statute, it would be open to it to apply for a specific subsidy from the authorities if the latter wanted it continued. As far as possible the industries should be required to keep proper accounts of each of their "uneconomic" activities.

5. Accounting

£200m

Current accounting practices in the industries are not satisfactory and need to be tightened up. A small committee should be set up by the Treasury and Comptroller and Auditor General (CAC), involving outside accountants. They should consider the application of inflation accounting to the Nationalised Industries, depreciation policy, problems such as unit costs, the process of capital reconstruction and writing off debt, the treatment of subsidiaries and cross subsidisation. They should publish as soon as possible a White Paper setting out the principles and accounting standards to be employed throughout the nationalised sector. When the new accounting principles are implemented the CAC may well need to create a new branch in his Department and to post officers in the finance departments of each major nationalised industry, to ensure that the new accounting practices are put into force. The CAC would be answerable to the Select Committee on Nationalised Industries (SCNI) for discharging this task together with management.

6. Corporate Plan and Management Accounting

In each corporation a Corporate Plan (CP) should be prepared and rolled over each year and agreed with the sponsor department and Minister. It should then be published. The Corporation's progress in achieving the plan should be monitored by a system of monthly management accounts which can be based on the already extensive systems of regular reporting now in operation. These management accounts should continue to be made confidentially to Government, though the CAG and SCNI should naturally have access to them when they wish. The CAG should be encouraged by the SCNI to make post-completion audits of the degree of success of the plan when the year is finished. The new Corporate Plan and report on progress in the past year would be submitted annually for the attentions of Parliament and the SCNI.

7. Ministerial Responsibility

A Treasury Minister would continue to oversee the financial performance and targets of the industries. The Sponsoring Minister would be in charge of the annual review of investment proposals and the Corporate Plan. It would generally be for him to negotiate explicit payments for "uneconomic" activities undertaken by the Corporation and to provide for so doing on his departmental vote.

8. Wages Policy

Collective bargaining would take place within the constraints imposed by cash limits and the R.O.R. As a result some groups will certainly be able to win more than others, either because they are in short supply or because they have greater industrial strength. It would not be sensible to try to make strikes illegal in key industries. Our proposals for income tax refunds and unemployment pay for strikers might be a less controversial way of diminishing the force of the strike threat.

9. Management

Managers should be given the overriding task of earning their required rate of return. There must be far higher rewards at the top in future, including if possible some sort of extra payment for success. In some of the industries supervisory boards could be introduced, in which the Chairman and Deputy Chairman would be full-time but some of the other members could be part-time. The functions of such supervisory boards would be:

(a) To help protect the management against ministerial and bureaucratic interference;

(b) to hire, fire and reward senior management;

(c) to ensure that the required return on capital was met;

(d) to reorganise the industry into smaller accountable units as best they could.

They would become holding company boards. Implementation would be left to executive management boards.

10. Increasing Competition and Ending Monopolies

A general Enabling Powers Bill should be introduced to end some of the statutory monopolies. This might make it possible for:

(a) North Sea oil companies to sell gas outside the gas grid;

(b) private companies to have more latitude in selling electricity from their own generators outside the electricity grid;

(c) the Post Office to be split up into Telecommunications and Postal Services as recommended by the Carter report. The telephone network would remain nationalised but private telephone suppliers would be given a larger role.

The coal industry and the question of bus licensing should be dealt with separately. The enabling bill should be called a Competition Bill or Monopolies Bill.

11. Competition

To avoid unfair competition between private and public sector companies, the limits on the activities of public corporations should be particularly firmly held for the time being. However once the proper financial disciplines have been instituted and much greater equality has been achieved in the relative cost of raising capital in public and private industry, there should be scope for freer competition in both directions.

12. Fragmentation

Our long term aim should be to move away from centralised unified corporations. Where possible management should be encouraged to divide each corporation in to basic industrial units - the pit, the ship-yard, the port, etc. Bonus schemes based on productivity at each unit should be tried (as in the pits). However it must be recognised that there is not great scope for achieving this in the utilities like gas, electricity, water and the railways.

13. Denationalisation

The scope for achieving this will vary widely. The objective must be pursued cautiously and flexibly, recognising that major changes may well be out of the question in some industries such as the utilities. Different methods should be used for different industries. The methods currently under consideration include:

(a) Giving a share in a corporation to each person on the electoral role - "shares for the workers";

(b) giving or selling shares to the workers in proportion to their years of work;

(c) making the industries sell equity shares on the open market - the "BP" solution. In this case, of course, over 50 per cent of the equity needs to be sold if the State is to lose control;

(d) sell whole parts of the corporation to private buyers direct, as has already happened with BSC.

On the face of it, the methods most suited to the major Corporations are as follows:

- "shares for the workers": Pits and Ports;
- sale of equity, with special rights for the workers: British Airways and possibly parts of BNOC;
- direct sale of assets to the private sector: BSC, BR, National Freight Corporation, BNOC, National Bus Co.

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