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cc Mr Wolfson  
Mr Jagan

Nat Industries

From the Secretary of State

Prime Minister

Mr Nott may touch on  
this with you some time

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

6 October 1980

M.A.P. 13/1x

Dear Geoffrey

I agree with J.N.  
m.

WASTE IN GOVERNMENT

In our Election Manifesto we expressed the intention of reducing the extent of Government interference in the management of nationalised industries, while setting them a clearer financial discipline in which to work. During the last year we have refined the system of financial targets and external financing limits to this end but we do not seem to have done so well in allowing more freedom to the bodies concerned within the framework we have constructed for them. I have in mind particularly the requirement which is still laid on the nationalised industries (and the CAA is treated as such for these purposes) to seek my Department's approval, and the concurrence of the Treasury, before they enter into commitments on major capital investment projects. This requirement derives normally not from statute but from agreed arrangements.

When I ask why this is necessary, I am told that it has always been done; but at a time when we have announced our intention of reducing the size of the Civil Service, I think we ought to question the usefulness of what has traditionally been done and consider whether its continuation is consistent with the other objectives I have mentioned. I touched on this in my minute of 12 March to the



Prime Minister, in which I mentioned the need to carry further the devolution of responsibility to Departments and to consider the special position the Treasury occupy in this field.

Some of the projects for which Departmental approval has been sought are relatively small in financial terms. For example, there is, I understand, a protracted correspondence still in progress about whether British Airways should be allowed to retain the 7th Concorde, which they purchased for £1000. A rather larger project - though still small in nationalised industry terms - is the CAA's proposal to modernise the London Air Traffic Control Centre, which has only just been approved. At Treasury request, my officials spent some time with the CAA to try and provide an "economic assessment" of this project. But the level of charges levied on aircraft making use of these facilities is laid down by international agreement in Eurocontrol, and therefore outside the CAA's determination and it is hardly appropriate to judge the project as if the CAA were able to fix charges. When we have put these cases to the Treasury, we have been asked to provide additional information of a detailed nature, which we have to seek from the industry concerned. This all takes time, and I do not deny that those bodies have to bear some of the blame for the delay which occurs. But some of the questions raised seem to go very deeply into matters which I feel should properly be left to management whom we have appointed to run the business.

I am told the same sort of procedure will apply to the authorisation of British Airports Authority to start the construction of Heathrow's 4th Terminal. That project is an important part of our airports policy; we made that clear when we approved the recommendations of the planning inquiry in December 1979. Its construction has already



been postponed because of the planning procedures, and my Department has had several meetings with the Treasury to discuss its place in the BAA's capital programme and how that programme is to be financed. (I myself have had three meetings with the Chief Secretary to discuss BAA's finances). I am frankly appalled at the thought that there may be months of further delay while our officials argue over details of BAA's proposals for building the Terminal.

In cases of this kind, I and my Permanent Secretary receive querulous letters and personal representations from the Chairmen of the bodies concerned, chiding us because we are taking so long to authorise the projects. I find it difficult to answer their criticisms satisfactorily; the present system certainly does nothing to assist the Department's relationship with the bodies concerned at a time when it is under strain because of the general economic pressure on us all.

So I think this is the right time to look very critically at the traditional practice, and ask ourselves whether it really serves a useful purpose, or whether we could manage as well - or perhaps better - by streamlining it. I shall be interested to hear the comments of colleagues, and am sending copies of this letter to Members of E Committee, Norman Fowler, Sir Robert Armstrong and Sir Derek Rayner.

You will recall the Economist article on the Questions set to you by your own Select Committee. I think Departments spend too much time answering similar "examination" questions set by the Treasury. Are we any better governed as a result? I think not.

Yours ever - John

JOHN NOTT



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