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*As written
to Mr Hodgson*

*Denis Minchin 1
Sir K. Joseph intends
to discuss this in E(EA),
but he wanted an
initial steer from
you.*

PRIME MINISTER

NEB : FUTURE ROLE AND FUNCTIONS

*Are you content with
his general approach?
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Agree general approach not.

I am now able to put proposals to you and to my colleagues on the future role and functions of the NEB. However, I have not yet had an opportunity of consulting the Secretaries of State for Scotland, Wales and Northern Ireland on the implications of these proposals for the industrial investment activities of the Scottish, Welsh and Northern Ireland Development Agencies, nor have I consulted the Chief Secretary on the public expenditure aspects.

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Our Manifesto commitment was to retain the NEB to administer the Government's temporary shareholdings, selling them off as circumstances permitted. But we also recognised it might be necessary to help firms in difficulties, although such help must be temporary and tapered. The relevant Manifesto references are contained in Annex A.

Taking it that the NEB is to continue I have been considering whether there are useful contributions it can make to the development of our policy during the period while our economic strategies are coming to fruition. We must first clear the decks and I have undertaken that the NEB will provide £100m this year to the Chancellor by selling off its main profitable holdings, notably ICL, Ferranti and 50% of Fairey and other smaller holdings; beyond that we have the prospect of perhaps £50m from the sale in 1980/81 and 1981/82 of the other half of Fairey and other smaller holdings.

This would leave 17 NEB shareholdings, falling into two categories.

/in the....



In the first category there are four "hospital" cases: BL, Rolls Royce, Herberts and Cambridge Instruments. BL and Rolls Royce are big problems in their own right and I do not wish to deal with them here except to warn colleagues of a likely proposal I shall be making about Rolls Royce. In this company we have inherited the prospect of large losses on contracts taken under the previous Government exacerbated by the present value of sterling against the dollar. It is essential to get costs under control, and it may prove desirable to take Rolls Royce away from the NEB so as, under the general supervision of my Department, to introduce more commercial management into the company. There is no prospect of an early and full return to the private sector but the ultimate possibility should not be ruled out. But at present I envisage BL staying with the NEB, plus Herberts and Cambridge Instruments, though I am urgently reviewing the prospects for these two latter companies.

We must expect that a large number of companies will have grave financial problems in the difficult trading circumstances of the foreseeable future. In the great majority of cases we must look to the private sector to provide its own solution: normally take-over by a stronger company or receivership (leading generally to rejuvenation under new management). We must however provide for the contingency that there may be a small number of cases, largely in the Assisted Areas, for which a private sector solution is not wholly feasible, but most could be dealt with - as our Manifesto clearly implies - by assistance under Sections 47 or 8 of the Industry Act 1972. I envisage the NEB in this context only as a means of dealing with very rare cases that had to be considered



in national terms and it would be for the Government, not the NEB, to decide whether an NEB initiative was desirable in this "hospital" role.

In the second category of remaining NEB shareholdings there are a group of what I will call "technology" companies, mainly concerned with computer software, micro-electronics and their applications, which I believe justify special attention. (I leave INMOS, about which I have deep misgivings, for separate consideration. The rest are listed in Annex B). There are good growth prospects for such activities, but private sector capital, understandably under past conditions, has been shy of providing the necessary high-risk finance. The NEB will be able to sell this scatter of holdings only gradually over the next few years. In the meanwhile it seems sensible to use the NEB as a means of familiarising the market with the new technologies. This could be done by requiring the NEB to secure as much private sector investment in their holdings as possible, by stages if necessary, although with a view to complete withdrawal by the NEB in, say, 4 years at the latest. Companies which could not attract private capital by then would be at risk of being closed down. In order to stimulate this process, and to encourage the NEB to cooperate with our rigorous overall approach and accept the reduced role we seem for them, I think it would be desirable for them to be allowed to retain a significant proportion of the proceeds of the later disposals, to be applied to new "technology" investments, but only with private sector partners (always with a view to the speediest possible NEB withdrawal, and subject to review in 5 years at the outside).

/Until...



Until I have had further discussions with the NEB I cannot put firm figures to the public expenditure this policy would entail. We must recognise that the NEB has existing commitments to the "technology" companies amounting, without INMOS, to about £50m in the three years 1980/81-1982/83. I suggest that in addition to this they should be provided with a "dowry" of about £50/60m for the period. (After that I would hope and expect that there would no longer be any need for an NEB in this role). A sum of this order is consistent with the undertakings I have given about future reductions in expenditure.

The NEB Guidelines at present require it to direct particular attention to the problems of the North and North West of England. The outcome has not been of much substance in economic terms, but if the Scottish and Welsh Development Agencies are to continue their industrial investment roles in neighbouring areas, which suffer from the same problems on the same scale, I think that the pressure of local opinion (crossing party boundaries) is such that it would be impossible to justify different treatment for the North and North West. There should, too, be a defensible relationship between the expenditure of the Agencies and that of the NEB, on a like-with-like comparison (because of the wider range of the Agencies' functions). The NEB in these two regions could provide, as often as possible in alliance with the private sector, some help for new and small firms until we decide on any general structure for encouraging this important business section.

For both the regional and small firms activities (largely in the North West and North East), the essential elements would be the



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maximisation of the private sector financial input, and the
speediest possible withdrawal of the NEB involvement that is
consistent with the health of the business concerned and the
safeguarding of public funds. I envisage that the two activities
together would require less than £10m a year in public expenditure
but this would have to be reconciled with whatever we decide for
the Agencies.

The legal advice that I have had points to the need for new
legislation before major disposals are made. I envisage that this
Bill will substantially curtail the existing powers of the NEB,
limiting its functions, sharply reducing its financial limit,
and redefining its financial duties. Powers will be needed to
transfer NEB shareholdings to other ownership and to give effect
to the changes in relation to Rolls Royce management if my
proposals mature. Extensive amendment of the NEB Guidelines, which
have statutory force, will also be necessary. All of this detailed
work will take some time and require close consultation with the
NEB Board. I am not yet able to say whether the members will be
prepared to acquiesce in the NEB's much diminished role but that
can be dealt with as a separate issue if necessary.

I envisage making as full a statement as possible to Parliament
before the Summer Recess on the broad terms of this policy. More
detailed statements can await appropriate occasions in the course of
the passage of the proposed legislation.

In summary, I seek your agreement to:-



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- (i) the general line of policy (subject to further discussion of the public expenditure implications) and to the NEB undertaking:
 - (a) a "hospital" role, covering BL, Herberts and Cambridge Instruments;
 - (b) the provision, though only in partnership with the private sector, of risk capital to "technology" companies, within a total of about £100m over the next three years or so, of which about £50m is already committed and against which we shall be receiving £50m from the sales in 1980/81 and 1981/82;
 - (c) a regional role in the North and North West which, with the support for small firms and subject to the level of the Agencies' comparable expenditure, would cost about £10m a year;
- (ii) the preparation of legislation, subject to discussion with the Secretaries of State for Scotland and Wales on the reconciliation of these proposals with the envisaged role of the Agencies.

I am sending copies of this minute to all members of E Committee, the Secretaries of State for Scotland, Wales and Northern Ireland and to Sir John Hunt.

PEM

PP K J
6 July 1979
(approved by the Secretary of State
and signed in his absence).



Manifesto Reference

Page 9 "We shall reduce government intervention in industry and particularly that of the National Enterprise Board, whose borrowing powers are planned to reach £4.5 billion."

Pages 14-15 "Too much emphasis has been placed on attempts to preserve existing jobs. We need to concentrate more on the creation of conditions in which new, more modern, more secure, better paid jobs come into existence. This is the best way of helping the unemployed and those threatened with the loss of their jobs in the future.

Government strategies and plans cannot produce revival, nor can subsidies. Where it is in the national interest to help a firm in difficulties, such help must be temporary and tapered.

We all hope that those firms which are at present being helped by the taxpayer will soon be able to succeed by themselves: but success or failure lies in their own hands."

Page 15 "Even where Labour have not nationalised they interfere too much. We shall therefore amend the 1975 Industry Act and restrict the powers of the National Enterprise Board solely to the administration of the Government's temporary shareholdings, to be sold off as circumstances permit.



NEB "Technology" Shareholdings

Data Recording Instrument Co Ltd
Insac Data Systems Ltd
Nexos Office Systems Ltd
Computer & System Engineering Ltd
Computer Analysts and Programmers (Holdings) Ltd
Logica Holdings Ltd
Logica VTS Ltd
Logica Securities Ltd
Systems Designers International Ltd
Systeme Ltd
Systems Programming Holdings Ltd
Legibus Twelve Ltd
Muirhead Office Systems Ltd