

Ref. A04465

PRIME MINISTER

The Relationship between Government and Nationalised Industries

You told me after your lunch with Monsieur Thorn that you thought that the relationship between Government and nationalised industries was not at all satisfactory, and that we needed to rethink it. I had been thinking about how best to carry this forward, when you reverted to the point during the discussion of coal at the Ministerial Committee on Economic Strategy on 5th March.

2. Recent events have shown all too clearly that it is not possible, at any rate with the big loss-making industries, simply to rely on setting an external financing limit as an external discipline on the industries and in other respects to stand at arm's length from them. The EFL is essentially a residual: the difference between total cash outgoings and total cash income over the year, the forecasts of which can be thrown wildly out by relatively small changes on either side of the account. This problem is particularly acute in a time of recession, when demand upon an industry (and its income) can be very significantly lower than forecast. It seems that neither the industries themselves nor the Government have been very good at seeing those changes coming and adjusting forecasts in good time.

3. It seems that we need more effective internal monitoring procedures in the industries; more effective external monitoring procedures available to Government; and a more sophisticated and coherent approach in Government to the appraisal of nationalised industries' investment programmes.

4. Some relevant work is already in hand. The Chancellor of the Exchequer has been considering ideas for moving the nationalised industries towards the American pattern of commercially-owned and managed public utilities controlled by a regulatory system, and is on the point of proposing the establishment of a mixed group of Ministers and officials to pursue these ideas. The Treasury has been considering how to improve the system for Government appraisal of nationalised industries' investment. The Treasury and the CPRS have been



studying ideas for an efficiency audit of nationalised industries, which could be part of a process of external monitoring. The CPRS has already done some work on tighter monitoring of external financing limits, and has given thought to the responsibilities of members of nationalised industries boards.

5. None of these programmes, however, goes to the heart of the matter. Even if some of the nationalised industries could be turned into public utilities working within a regulatory system, that is a policy for the medium term: it would probably be 1982-83 at the earliest before it would be possible to introduce legislation. It seems likely that there would remain some industries which for one reason or another could not be transformed in this way and would have to remain in public ownership. And, if we are rethinking the relationship between Government and nationalised industries, proposals for efficiency audit of the industries are only part of the picture.

6. Successive Governments have grappled with this problem for the past 30 years. In 1968 the Select Committee on Nationalised Industries under Ian Mikardo proposed a Ministry of Nationalised Industries. There was an interdepartmental study in 1970-71. The CPRS under Lord Rothschild proposed a "flexible membrane" between the Government and industries at about the same time. And the NEDC proposed a Policy Council for each of the industries in 1976. So this is well-tilled ground. But the matter is so important that there is much to be said for another attempt to get relations with the nationalised industries on to a sound footing. What is needed is, I think, a fundamental reappraisal of the elements in the relationship and of what the role of the Government should be; and then, arguing from that, a consideration of what possible form of organisation would best give effect to that role. This will not of itself solve the problems that constitute the subject matter of relations between the Government and the nationalised industries; but it could well contribute to greater efficiency in identifying and clarifying the issues and possible solutions to them. I do not think that there is time to put this review out to some kind of external inquiry, which could take up to a year. As for internal inquiries, there are various possibilities:-



- (i) The Chancellor of the Exchequer could be given the task of leading a study of this matter by Ministers and senior officials of the Departments concerned.
- (ii) The Cabinet Office could be invited to lead a small group of senior officials from the Treasury, the sponsoring Departments and the CPRS in the preparation of an urgent study and report to Ministers.
- (iii) The Head of the CPRS could be asked to consider what should be the basis of the relationship between Government and nationalised industries, and how best to give effect to that relationship so as to ensure a reasonable balance between the commercial responsibilities of the boards, and the supervisory responsibilities and financial commitments of the Government. The Treasury, the "sponsoring" Departments and the Policy Unit in No. 10 should be consulted in the preparation of the study, but Mr. Ibbs would be responsible for the report, and the Departments would not be committed. This report would be submitted to Ministers.
- (iv) The Treasury at senior official level (in practice Mr. Ryrie) could be asked to take charge of the study, consulting the sponsoring Departments, the CPRS and the Policy Unit in No. 10. This would flow naturally from the Treasury's traditional responsibilities for general oversight and co-ordination of the financing of nationalised industries and the financial relationship between the Government and the nationalised industries.

7. My own recommendation would be for the third of these courses, a remit to Mr. Ibbs. I believe that it is likely to be quicker than any of the other courses; it is more likely to "think the unthinkable" and it is perhaps the most likely to produce the kind of paper which will set out the issues and the problems and possible solutions in a crisp and highly-focused form which will facilitate consideration and discussion by you and your colleagues.

8. The Chancellor of the Exchequer mentioned this problem to me the other day, as one we should need to tackle after the Budget; and I have had some discussion of the problem with Mr. Ryrie as well as with Mr. Ibbs. I have not



copied this minute to the Chancellor or to the other Ministers mainly concerned (the Secretaries of State for Industry, for Energy and for Transport); but the next step might be to discuss the matter with them, on the basis of this minute which could be copied to them if you agree.

RA

ROBERT ARMSTRONG

13th March, 1981