



Ref. A04699

MR. LANKESTER

Nationalised Industries

With my minute of ^{Tom} 3rd April, I enclosed a draft minute to Mr. Ibbs which you subsequently sent to him. It was agreed that no full record of the 31st March meeting should be circulated, but a record has been drawn up which will be kept on our files. I enclose a copy for No. 10 files.

D. J. WRIGHT

10th April, 1981

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Note of a Meeting at 4pm on Tuesday
31 March at 10 Downing Street, to
discuss the relationship between
Government and the Nationalised Industries.

Present: The Prime Minister, The Chancellor of the
Exchequer, The Secretaries of State for
Industry, Energy and Transport, Mr Ibbs,
Sir Robert Armstrong, Mr Le Cheminant and
Mr Moore.

THE PRIME MINISTER said that there had been a number of major instances within the last year of nationalised industries and publicly owned companies, such as BL, tabling proposals for substantial additional public expenditure too late for Ministers to have the opportunity to call for analysis of alternative approaches. The result was that the Government had responsibility for financing these industries but no effective means of controlling the flow of public finance to them. This called for an urgent and radical re-examination of the relationship between Government and the nationalised industries, as well as companies dependent on Government financial support, and of the present methods of monitoring their financial performance and forecasts.

In discussion the following were the main points made:-

- (a) To some extent the financial problems of the industries resulted from falling markets and the high exchange rate. These problems were, however, faced by the private sector too. The right approach was to distinguish between external factors, which were outside the control of the industry, and those internal factors for which an industry could set objectives and be held accountable; in this way adverse movements in external factors could not be used as an excuse for the overall

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performance of the industry. Once objectives were set on this basis, Government should arrange for them to be monitored closely and monthly and should ensure that forecasts were revised in good time so as to avoid changes later in the financial year. The objective should be to secure a measure of control broadly comparable to that of a holding company, but not for the Government to assume, or to be thought to be assuming, responsibility for the management of the industries.

(b) Monthly financial returns were already made to sponsoring Departments but it was now necessary to make this system work effectively. Each industry should be required to present annotated accounts monthly and in a common form. The internal accounting systems of some of the industries, notably British Telecommunications, was weak and needed to be improved urgently.

(c) The ability of staff within the sponsoring Departments and the Treasury to appraise monthly returns, forecasts and investment proposals needed to be reinforced. Consideration should be given to calling in outside experts with direct experience of dealing with these problems in the private sector. The recent report of the Monopolies and Mergers Commission on the Central Electricity Generating Board illustrated how outsiders could be more effective than Departments in obtaining detailed information and presenting analysis of it. It should not, however, be necessary to set up any central unit within Government to deal with these questions.

(d) In parallel with improvements to the present systems of monitoring and control, pressure should be maintained to privatise public sector activities where practicable and to break up monopolies by the introduction of competition. Consideration should be given to breaking up some industries, such as the National Coal Board, into regional boards. If it were thought that legislation was inhibiting progress, proposals should be put forward for changes. It was noted that the Chancellor of the Exchequer might wish to put forward proposals for the

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speeding up of privatisation measures, and that the Secretary of State for Energy would consider whether he wished to make any further proposals for breaking up the monopoly powers of the industries for which he was responsible.

THE PRIME MINISTER, summing up the discussion, said that the Meeting agreed that the Central Policy Review Staff should undertake an urgent review of what should be the basis of the relationship between Government and nationalised industries, and companies dependent on financial support from Government, 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; their review should deal in particular with the adequacy of the present arrangements for monitoring the financial performance of the industries and for giving warning in good time of troubles ahead. The CPRS should consult the Treasury and each of the sponsoring Departments and, through them, any of the nationalised industries which they wished to approach. The report would be their responsibility and Departments would not be committed by it, although they should give the CPRS every assistance in its preparation. The report should be submitted to her, and the other Ministers concerned, in time for it to be discussed before the Summer Recess.

THE MEETING --

Took note, with approval, of the Prime Minister's intention to arrange for a letter to be sent to the Head of the CPRS inviting him to carry out a review on the lines indicated in her summing up of their discussion.

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