

cc Mr Walters
Mr Wolfson
Mr Duguid
Mr Ingham.

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Prime Minister

You may like to have a first
look at this before the
weekend.

Qa 05643

To: PRIME MINISTER

From: J R IBBS

In the weekend
how please
not.

28 July 1981

MA 25/111

Nationalised Industries

1. The attached paper meets the remit to the CPRS to review the relationship between the Government and the nationalised industries, and report before the Recess (Mr Lankester's minute of 3 April). Moves towards privatisation and greater competition, and changes in financing, are outside the remit. In the time available we have concentrated on the larger industries and have not examined the smaller ones nor those sponsored by the Secretary of State for Scotland.

Summary

2. In brief, we have found that apart from the economic conditions which have affected financial results in all sectors of industry, there are five basic problems:

- (i) the lack of market forces and any threat of bankruptcy; ✓
- (ii) the extent of union power; ✓
- (iii) the absence of a sufficient strategic framework; ?
- (iv) the impact of political decisions which unavoidably clash with straightforward business objectives;
- (v) a failure of communication and understanding.

3. These problems put a great strain on the relationship between Government and the industries. Improving this relationship will not itself remove all the problems, but it will help in tackling them effectively. Following widespread consultations we find that the situation is serious enough to require early action under three main headings:

a. Objectives

4. ✓ However attractive a wholly 'arms length' relationship may be in theory, we are convinced that it is not possible in practice. The Government effectively 'owns' the industries on behalf of the nation. This means that it must set clear objectives for each industry's management, and must

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then monitor performance and press for action to correct shortcomings. We attach importance to giving each Chairman on appointment a set of clear strategic objectives which should only be altered after discussion and definition of the business consequences of any change. This should form the basis of a close relationship between the Secretary of State and Chairman. These objectives will then be translated into quantified medium-term targets in the corporate plan and into annual budgets, in turn providing a framework for overall monitoring and remedial action. It is important that detailed management should be left to the industries and that the Government's involvement should be restricted to major issues.

b. The Industries

5. The size and complexity of the principal industries is such that the Chairmen and senior executives need to be industrialists of the highest quality; the financial and other rewards need to be sufficient to attract them. We favour small Boards, with a majority of non-executive directors. The latter need to have had relevant experience outside the industries and must bring a probing but well balanced approach to their role. They should be given explicit responsibilities, e.g. efficiency, appointments, salaries; as an Efficiency Audit Committee they should ensure that external audit recommendations are followed up, and more generally should act as a surrogate for absent market forces.

c. Government

6. If the relationships with nationalised industries are to improve and the difficult problems facing them are to be tackled more effectively, Government needs to have a better understanding of business. Our own belief is that in each of the main sponsor Departments there should be a separate Business Group, looking after all the Department's industries. The Business Groups need not involve any net increase in staff (unless transitionally), but should include people with business experience and relevant skills - partly recruited from outside, but increasingly the product of better, more specialised career planning. We believe that the head of the Business Group in the largest Departments should be at Second Permanent Secretary level, with the experience and status to deal direct with Chairmen; in our view he should be a senior businessman, at least

for the initial appointments while Business Groups are being established and the necessary expertise built up. This change is not intended to lead to more Government intervention in the management of each industry - on the contrary, by closer understanding it should establish a firmer strategic framework and minimise short-term crisis intervention.

7. However, it appears that Ministers and senior officials in sponsor Departments, who have the direct responsibility, are doubtful about the need for such a radical reorganisation. We remain convinced that a considerable change in organisation (more than just setting up an advisory group), and the injection of business expertise at a very senior level, are needed to bring about a substantial improvement in the relationship with industries and so in performance. If our concept of Business Groups is not favoured by Ministers collectively, we recommend that each of the main sponsor Departments should be asked to make proposals in the light of our report, within a specified time (say three months).

8. We recommend that a small Ministerial Committee should be set up, with you normally taking the chair, to consider issues of nationalised industry policy, including objectives and priorities, and to monitor overall performance against targets. It should have the support of a small Review Staff in the Cabinet Office, including people with business experience, and working closely with the Treasury. One of its first tasks could be to consider the reports on reorganisation from sponsor Departments.

Implementation

9. A full list of recommendations is at the end of the report. There has not been time to tailor these precisely to the varying circumstances of each industry. If Ministers agree with our main recommendations - clearer objectives, smaller Boards with a majority of non-executives, reorganisation of sponsor Departments on Business Group lines, and a new Ministerial Committee - the new committee could be set up at once and could supervise work on implementation, aimed at a Parliamentary statement or short White Paper before the end of the year. The changes can be implemented without legislation, except in some cases to provide in due course for smaller Boards - and perhaps as a sanction in reserve against recalcitrant industries.



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10. Ministers will also wish to consider whether they want further work done on the longer-term option of regulatory agencies (paragraphs 10 and 11, and Annex E).

11. I am sending a copy of this minute and attachment to the Chancellor of the Exchequer, the Secretaries of State for Industry, Environment, Scotland, Energy, Trade and Transport, and to Sir Robert Armstrong.

SR

Att

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