

SUBJECT

Copied
to Master.

CONFIDENTIAL

NOTE OF A MEETING HELD AT 10 DOWNING STREET ON TUESDAY 4 AUGUST
AT 1000 TO DISCUSS A REPORT BY THE CENTRAL POLICY REVIEW STAFF ON
THE RELATIONSHIP BETWEEN GOVERNMENT AND THE NATIONALISED INDUSTRIES

Present

The Prime Minister
Chancellor of the Exchequer
Secretary of State for Trade
Secretary of State for Energy
Mr. Norman Tebbit
Mr. Michael Marshall
Mr. Alex Fletcher
Mr. Kenneth Clarke
Mr. David Young
Mr. J.R. Ibbs
Mr. J. Hoskyns
Sir Robert Armstrong
Mr. P.L. Gregson
Mr. D.J.L. Moore

* * * * *

Mr. Ibbs said that the Central Policy Review Staff (CPRS) had found that, apart from the economic conditions which had affected financial results in all sectors of industry, there were five basic problems in the present arrangements for the nationalised industries: the lack of market forces and any threat of bankruptcy; the extent of union power; the absence of a sufficient strategic framework; the impact of political decisions which unavoidably clashed with straightforward business objectives; and a failure of communication and understanding between the industries and their sponsor departments. To make it possible to tackle these problems more effectively, the CPRS recommended four main courses of action. First, each chairman on appointment should be given a set of clear strategic objectives which should only be altered after discussion and after definition of the business consequences of any change. Secondly, the boards of the industries should be generally small with a

/majority

majority of non-executive directors acting as a surrogate for absent market forces. Thirdly, in each of the main sponsor departments there should be a separate business group, looking after all the department's industries, and headed initially by a businessman at second permanent secretary level. Fourthly, a small Ministerial committee should be set up, which the Prime Minister might chair, to consider issues of nationalised industry policy and with the support of a small review staff including people with business experience and working closely with the Treasury. These general proposals and principles would need to be tailored to the particular circumstances of the individual industries.

In discussion there was general agreement with most of the CPRS recommendations. The following were the main points made:-

(a) The business expertise of the sponsoring departments should be developed urgently, but not necessarily by setting up business groups headed by a senior businessman. It would be difficult to find enough people of the right calibre to take on this role. There was a danger that they would impede rather than improve good relations between the chairmen and Ministers; this had been a criticism of the role of the National Enterprise Board. In practice it could be difficult to draw a line between business issues on the one hand and political and administrative questions on the other. Insofar as suitable businessmen were available, it might be better to recruit them directly to the nationalised industries either in a full-time capacity or as non-executive directors.

(b) An alternative way of building up the business expertise of the sponsoring departments would be to recruit middle ranking outsiders with the right experience - businessmen, merchant bankers or accountants - into executive roles on a short-term contract of, say, three or five years. At the same time the business

/expertise

expertise of the civil servants in sponsoring departments could be developed by ensuring that they had the right training, including secondments to outside industry, and that full and effective use was then made of their experience. At present junior staff in particular tended to be kept in post for little more than two years; this was insufficient if they were to gain in-depth understanding of the industries with which they dealt. The Civil Service Department and sponsoring departments should take action to change this practice. Increased business acumen in the sponsoring departments would improve their relationship with the industries who would have a greater respect for them; although some chairmen would continue to be critical of civil servants who, in their view, were insufficiently compliant with their wishes.

(c) Smaller boards with a majority of non-executive directors would probably be right for most of the nationalised industries. For some, a different structure might be appropriate with, for example, a main board over a number of limited companies each with its own objectives and External Financing Limits. There might also be scope for breaking some of the large industries into regional groupings.

(d) It was agreed that there was no case for a Ministry for the Nationalised Industries. The better course was to set up a Ministerial Committee supported by a small review staff located in the CPRS.

The Prime Minister, summing up the discussion, said that the meeting congratulated the CPRS on their excellent report. They agreed that each chairman should be given a set of clear strategic objectives on appointment; that there should be a move to smaller boards with, in most cases, a majority of non-executive directors; that there should be a new committee to consider issues of nationalised industry policy which she would chair, with the Chancellor of the Exchequer deputising for her as appropriate; and that the Ministerial Committee should be

/supported

supported by a small review staff in the CPRS, which would involve a net addition to the staff numbers of the CPRS and of the Cabinet Office. The meeting also agreed that the business expertise of the sponsoring departments should be developed urgently, but they were not fully persuaded by the CPRS proposals for business groups headed by a senior businessman. Each sponsoring Minister should therefore suggest in detail how they would wish to give effect to the CPRS recommendations and, in particular, to improve the expertise of their departments in dealing with the nationalised industries; the meeting recognised that the arrangements would need to be tailored to the particular needs of the individual industries. She would also arrange for the Civil Service Department to make proposals for ensuring that officials who dealt with nationalised industries should spend longer in each post and that they should have career paths providing for more business training and a succession of postings to build up and reinforce their expertise in this work. There was strong interest in the CPRS report both among the nationalised industry chairmen and from the press; the meeting agreed that in principle there was a case for publishing the report, perhaps with some amendments, but they would consider this further in the light of the firm decisions which would be taken later on how to respond to the CPRS recommendations.

The Meeting -

(1) welcomed and approved the CPRS report, and endorsed its recommendations on defining objectives, and on the size and composition of nationalised industry boards;

(2) took note that the Prime Minister would invite each sponsoring Minister to put forward his detailed proposals for implementation of the CPRS recommendations for improving the expertise of sponsoring departments, and would make arrangements to set up a Ministerial Committee and a small review staff in the CPRS, on the lines recommended by the CPRS;

CONFIDENTIAL

- 5 -

(3) agreed to resume their discussion of the CPRS report in the light of the written submissions from sponsoring Ministers.

6 August 1981