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CABINET

THE COMPTROLLER AND AUDITOR GENERAL:
NATIONALISED INDUSTRIES

Memorandum by the Secretary of State for Trade

1. Mr St John Stevas's Private Member's Bill proposes significant increases in the scope of the Comptroller and Auditor General's (C and AG) responsibilities in respect of nationalised industries. I have a particular interest in these proposals as I am responsible for the Monopolies and Mergers Commission where functions in relation to nationalised industries could be taken over by the C and AG. But it is not from that point of view that I write this memorandum but rather because of my responsibility for certain of the nationalised industries.
2. There is no common ground between our important policies for increasing the efficiency of the nationalised industries and the Parliamentary pressures to expand the role of the C and AG and the Public Accounts Committee in the nationalised industries as well as in other matters. A search for compromise is therefore idle: if we give way, we shall be sacrificing not only our nationalised industry policies but the nationalised industries themselves.
3. Our policies are to provide an increasingly tough commercial regime of strategic, financial and performance objectives for the industries with stronger self appraisal by their Boards using their own audit staff and periodic external scrutiny. All our pressures - and our appointments to boards - are for the industries to be run commercially. Commercial decisions call for speed of analysis and decision, and the judgment and readiness to take risks.
4. The C and AG, by contrast, operates a continuous public audit against norms of behaviour and accountability developed for Ministerial activities, with the prime emphasis on public defensibility, fairness and consistency of treatment, the detailed recording of every decision and the avoidance of risks. Nor should we delude ourselves that for the C and AG to take on better staff from the commercial field would fundamentally alter the situation: the reporting point would still be a Parliamentary Committee, in which expertise and pressures would be political rather than efficient business management.
5. Continuous and detailed Parliamentary audit with Exchequer and Audit Department staff sitting in the industries would force Ministers also to look over the industries' shoulders in burdensome detail. Sponsor Ministers would not find it acceptable for Parliament, through the C and AG, to have more information than they did, while they remained responsible to

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Parliament for the industries. It would become even more difficult to recruit able people from the private sector to work in the industries, either as executives or on the boards.

6. Privatisation would be put at serious risk. The temptation would be great, in a committee with a built-in Opposition majority, to time the examination of particular industries so as to inhibit privatisation.

7. If British Telecom cannot cope with a Monopolies and Mergers Commission inquiry prior to privatisation, how could it cope with a full-blooded investigation by the C and AG and the Public Accounts Committee?

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Department of Trade

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