

ACTION

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Mr Spholar

(4)

Prime Minister

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E(NI)(81) 10
2 December 1981

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MUS 3/12

Please give no more work to CPRS yet. I am considering whole study.

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY
SUB-COMMITTEE ON NATIONALISED INDUSTRIES

FUTURE WORK OF THE SUB-COMMITTEE

Note by the Central Policy Review Staff

Note
Told Dwight by telephone - he & Sir R Armstrong are fully aware.

MUS 7/12

1. Ministers may want to take stock of E(NI)'s programme over the next few months, and to consider what new work they wish to commission.
2. The Committee already has important work in hand to carry forward the new approach to Government relations with the nationalised industries. The main items are listed in Annex 1.
3. This programme of work will limit the scope for fresh remits in the next few months. There is no shortage of subjects worth examining in detail, and some of these are listed in Annex 2. But for the present, the CPRS believes that the Committee should confine itself to commissioning work and taking decisions on two other important topics in the period before the Easter Recess -

(i) Investment Appraisal and Methods

Ministers have endorsed the proposals in the Chancellor's paper E(NI)(81) 4. The Treasury will lead on this subject, and it is desirable that E(NI) should take any decisions before the IFR round gets under way. The CPRS hopes that the study will cover three aspects -

- whether the various industries' appraisal methods are consistent and satisfactory;
- how to take account where relevant of a large scale investment programme (eg System X, rail electrification), as well as reviewing individual smaller projects within annual investment plans;

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- how the industries' investment programmes can take into account other Government objectives such as exports and the strengthening of UK suppliers.

(ii) Regulation of Monopoly Utilities

As our main Report explained (paragraphs 10 and 11, Annex E) the CPRS believes this to be an important but difficult area. If Ministers agree, one way to tackle it would be for the CPRS, in consultation with Departments, to study and report on the prospects for devising a satisfactory regulatory framework for any monopoly utilities that might be sold to the private sector. Much more work would need to be done on the practical problems (eg those listed in Annex E of the main Report); it is already clear that there are some substantial difficulties, and that US experience is not necessarily a satisfactory model for this country. One or two industries (eg electricity, telecommunications) might be examined as test cases.

Conclusions

4. Ministers are invited to note the work already in hand, endorse the suggestions at 3(i) for the study of investment appraisal and methods being undertaken by the Treasury, and consider whether the CPRS should report to E(NI) by April 1982 on the regulatory issue described in paragraph 3(ii).

Current Work

There is already work in hand for the Committee on five major subjects -

1. Objectives

At its first meeting E(NI) invited sponsor Ministers to arrange for the preparation of draft objectives for individual nationalised industries, to be submitted to the Sub-Committee before the Christmas Recess. If the Committee agrees, they will then need to be negotiated with Chairmen individually, as foreshadowed in the discussion document sent to the Chairmen's Group. Ideally agreement on them should be reached before Ministers examine major industries' Corporate Plans ((2) below). In any case they should be settled before the IFR round begins.

2. Reports on Corporate Plans

At its second meeting E(NI) agreed that sponsor Ministers should report on each major industry in the light of the Corporate Plan, so far as possible in the period January-May next year. The Treasury is taking the lead in arranging a programme of these reports.

3. Monitoring

The CPRS has drafted a paper (following the main CPRS Report, Annex D) which, after discussion between officials, should be ready for submission to the Sub-Committee in early January. If E(NI) is content, the paper could then be discussed with the nationalised industries with a view to reaching agreement in February for implementation from the start of the 1982-83 financial year.

4. Contingency Margins in EFLs

E(NF) invited the CPRS to study this question in July; the report will be submitted to the Sub-Committee shortly.

5. Succession Planning

Board appointments clearly have a vital part to play in Government/nationalised industry relations. In the past there have been problems, stemming partly from lack of clarity on objectives, and partly from lack of any formalised succession planning, as well as inherent recruiting

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difficulties. A paper is being prepared as a basis for a general Ministerial discussion of aims and procedures, though decisions on individual appointments will remain primarily a matter for the sponsor Ministers concerned.

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Other Possible Areas of Future Work1. Priorities between nationalised industries

It would clearly be useful if Ministers were enabled to develop criteria which would help them to judge more rationally between the competing bids of the industries for limited public funds. This is well known to be an intractable problem, but the CPRS would be willing to give some thought to it next year, drawing on the Treasury paper on investment appraisal and methods, and experience with comprehensive reviews of major industries.

2. Property

Many of the industries have enormous property holdings, and it is widely believed that they do not get, or are not sufficiently motivated to get, the best value from these. Ministers might at some stage invite the Special Adviser to the Secretary of State for Industry to prepare a paper for E(NI) discussing the present management of the industries' property portfolios and how it might be improved.

3. Working capital (stocks and debtors)

The CPRS has long believed that many of the industries could economise on their working capital requirements. Whether this merits a separate across-the-board study will depend to some extent on the industries' estimates of their working capital requirements, against past trends, as they emerge in the 1982 IFR round.

4. Major inter-relationships between the industries

There is a case for highlighting these inter-relationships more systematically; for example the impact of coal production and prices, and NCB finances, on the electricity supply industry, and electricity in turn on BSC's finances. Another potential inter-relationship is the risk that the unions may co-ordinate their pay negotiations more closely.