CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

3 February 1982

Michael Scholar Esq.
10 Downing Street
LONDON
SW1

Dear Michael,

NATIONALISED INDUSTRIES: FOLLOW-UP TO CPRS REPORT

You will recall that the Chancellor sent the Prime Minister on 25th January a revised version of the document outlining the Government's proposals. This followed a meeting with the nationalised industry chairmen after which there was some discussion between Sir Robert Marshall and officials.

Some further amendments have now been suggested by Mr Ibbs and agreed in discussion with him and the NICG and I enclose a copy of the final version. The changes are largely of nuance and the Chancellor believes that the document correctly reflects the decisions Ministers have taken, but in language which is acceptable to the chairmen. The document remains, however, a statement of the Government's intentions; it is not an agreement negotiated with the chairmen.

The Prime Minister and members of E(NI) may also wish to see the letter which Sir Robert Marshall sent the Chancellor recording their reactions to the document. A copy is attached.

Subject to the Prime Minister's views, the way is now clear for bilateral discussions between sponsor Ministers and Departments and the industries to start, with a view to implementing the proposals as soon as possible.

I am copying this letter to the Private Secretaries of other E(NI) members, Mr Ibbs and Sir Robert Armstrong.

Yours ever
Peter

P.S. JENKINS
Private Secretary

tionalised Industries' Chairmen's Group

Sir Robert Marshall KCB, MBE †

PO Box 403
33 Grosvenor Place
London SW1X 7JG

01-235 1212

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N114

20 January 1982

The Rt Hon Geoffrey Howe QC MP
Chancellor of the Exchequer
The Treasury
Parliament Street
London SW1

Dear Geoffrey

Government-NI Relations

When some of us discussed with you on 16th December the paper you had sent us on this subject based on the CPRS study we were much encouraged by the open and thoughtful discussion and the measure of agreement which seemed to emerge. We had been perturbed to say the least of it by some of the detailed proposals in the memorandum which did not appear to us to be compatible with the efficient conduct of our businesses within our overriding statutory obligations. The discussion left us re-assured to a considerable extent about your intentions.

You kindly agreed that we should have a shot at amending the document to accord with the way in which the discussion had developed and I sent Bill Ryrie at the end of last week our suggestions on this. We have been at very great pains not to go beyond what we thought emerged from the discussion between you and your colleagues and not to break the form or blur the principle objectives in your document. I hope you will find the result acceptable.

When you saw us before Christmas we had had written comments from a number of our colleagues but not a full discussion of your document. Earlier this month Chairmen met in Council and discussed your proposals in detail after hearing how the discussions with you had gone. Discussion concentrated very much on the same points as we highlighted in our talk with you and extreme disquiet was expressed about the detailed proposals though not in general about the broad objectives. I think it is important for you and your colleagues to understand that this disquiet was utterly genuine and in no sense parochial or personal. We were concerned about the consequences for the efficiency of the corporations if your detailed proposals were adopted.

Chairmen felt so strongly about this that they asked me to write to you to highlight again the main points of their concern which are briefly:-

Basis of Government-NI Relations. Reference to the development of a partnership between Government and the Boards based on agreed and clearly stated long-term

† Correspondence directed particularly to the Chairman of the Group should be sent to:
National Water Council, 1 Queen Anne's Gate, London SW1H 9BT

objectives is entirely welcome. But the discussion emphasised particularly strongly the fact that the powers and duties of the Boards were laid down in the Statutes as are those of Ministers and new arrangements had to be consonant with these underlying statutory obligations. Two current legal cases - the GLC fares scheme and the airlines' case against the Department of Trade and the BAA - underline the point.

Role of the Non-Executive Members. Chairmen attach great importance to the contribution of their non-executive Members and are only too ready to consider further ways of enhancing their role. What alarmed us in the original document was the apparent failure to appreciate the crucial importance of ensuring that Boards operate as corporate entities; the Board as a whole carrying collective responsibility for the conduct of the business. We should not be willing to compromise on that.

The Diversity of the Corporation. The document drew attention early on to the diversity of the corporations but this important fact did not seem to read through in the detailed proposals. I can well understand that this may have been a matter of simplicity in drafting but we wish to emphasise how important this diversity is in all sorts of ways including things you discuss such as the need for reference to the Monopolies and Mergers Commission and the size and composition of Boards.

Greater Business Understanding in Whitehall. Chairmen are entirely with you in wishing to improve understanding in Government of the industrial and commercial situations of the corporations but we urge you to think most carefully about how this can best be done without, as you yourself say, interfering with what is properly the business of the Boards and diverting yet further effort and time from managing the business to answering questions. We should hope that you would concentrate on increasing understanding and knowledge primarily in the sponsor departments and that you would go for quality rather than numbers. These are matters for your decision but they affect us crucially and can be detrimental to the efficiency which you are eager to promote.

I think you and your colleagues acknowledge that these are genuinely important points. If you are able to accept the amendments proposed to your document that would help to get discussions off on the right footing. The crucial test would be how relations then develop.

Yours ever

Bob Armstrong

Changes from original version indicated by underlining

# THE RELATIONSHIP BETWEEN THE GOVERNMENT AND THE NATIONALISED INDUSTRIES

At the Government's invitation the Central Policy Review Staff (CPRS) has carried out a study of the relationship between Government and the Nationalised Industries, and has now presented its report to Ministers. The Government has considered the recommendations, and is taking steps to improve its own organisation for dealing with the better understanding of business in Whitehall (see paragraphs 6 and 7 below). But some of the recommendations, which it also favours, concern the industries themselves, and it wishes to discuss the implementation of these with Chairmen.

2. The purpose of this paper is accordingly to provide for Chairmen an outline of those general recommendations that carry direct consequences for their industries, supported by a summary of the reasoning that lies behind them. It needs to be stressed that the recommendations are of a general nature. The industries are extremely diverse, both functionally and in terms of their market position, and are subject to different statutes. The ways in which the recommendations can best be implemented in individual industries will consequently require detailed discussions between Chairmen and the relevant Secretary of State. During these discussions the Government will welcome suggestions from the industries themselves.

## Basic relationship

3. Clearly a better relationship between Government and the industries will not in itself solve all problems or remove all risk of a conflict of interests. However, an improved relationship would greatly increase the chances of dealing with difficulties more effectively. There is much to be gained from a better unity of purpose. What is required is a relationship whereby the industries move in an overall direction agreed by Government after full consultation with the Boards, in an environment where there are effective surrogates to replace market disciplines where these are missing, so that direct intervention by Government becomes minimal and the responsibilities of the Boards under statute are not infringed.

?

## Clarity of objectives

!! – See the last sentence of the last para!!

4. A satisfactory relationship between Government and the

industries requires that there should be clarity of objectives. Policy towards the industries needs to look well ahead. The Government therefore intends that Ministers should agree long-term objectives with the Chairmen and the Boards. Such objectives would be mostly qualitative, indicating desired trends. Corporate Plans and Annual Budgets will fill in the detailed figures. These objectives should be consistent with the statutory duties of the Boards and with any financial targets and performance aims.

5. Such a set of objectives should remain reasonably resilient over a number of years and would form the basis of the partnership between the Secretary of State on the one hand and the Chairmen and the Boards on the other. Obviously they would not remain totally immutable in a changing environment and would sometimes need updating. If either the industry or the Government wished to change the objectives, then further consultation would be necessary. This would serve to make explicit the consequences of a change in direction. Effectiveness in relation to the objectives will provide a basis for judging management performance.

Greater business understanding in Whitehall

First two sentences deleted.

6 ~~8~~. The Government, acting on behalf of the nation, which is the owner, must be able to assess performance and ensure that any serious deficiencies are corrected. While not attempting to interfere in the conduct or management of the businesses, the Government must be able to understand them if it is to be effective in this role. Ministers have accepted the CPRS view that greater business understanding is needed in Whitehall

Do we not now??

- to arrive at workable objectives agreed with the industries;

- to see that these objectives are properly translated into quantified targets, and assess performance against these targets;

- to appreciate the business implications of other decisions affecting the industries;

- to ensure that the commercial needs of the industries are properly understood and taken into account by Government.

Ministers intend to strengthen their arrangements for collective consideration of matters affecting the nationalised industries. Those arrangements will be supported by a small Review Staff which will form part of the Central Policy Review Staff. The Treasury and sponsor Departments will also take steps to strengthen both the general business expertise of the staff advising Ministers on nationalised industry matters and especially their understanding of the particular business sectors with which they are concerned.

7. Clearly also Whitehall cannot gain a better understanding of the industries unless it is adequately informed. In order to achieve this, Ministers propose to develop further three sets of existing arrangements:

(i) A regular and systematic programme for comprehensive annaul assessment of each major industry. This would be centred on the industry's Corporate Plan, andwould look at the commercial performance of each industry including its achievements against agreed targets, its main forward plans, and trends in pay, pricing and productivity. The sponsor Department and its Secretary of State would be in the lead, but would report to Minsiters collectively on the industry's performance and prospects, and on any strategic options needing collective consideration. This would lead into the IFR and thereafter to the autumn settlements of EFLs, and the aim would therefore be to carry out these reviews so far as possible by May of each year.

(ii) Improved procedures for monitoring progress against plans. These would provide up-to-date information, on the basis of which any divergence from plans could be discussed with the industry to establish the scope for corrective action where appropriate.

(iii) Greater understanding of industries' investment

appraisal techniques and the content of investment programmes. The Boards must of course remain responsible for devising and justifying their investment programmes. But Ministers need to satisfy themselves about appraisal methods and standards, and to draw on relevant information in reaching decisions about overall priorities.

Detailed proposals on these lines will be put to individual industries. In preparing them, Departments will be expected to bear in mind that the purpose of these improvements is not to second-guess the Boards in their direction and detailed management of the businesses but to enhance Whitehall knowledge and understanding so that sponsor Departments can better appreciate the business arguments and considerations put to them by the industries. A more systematic approach to reviews and monitoring will reduce the need for ad hoc requests for further information and Departments will cover this aspect in their discussions with the industries. Ministers will be concerned to ensure that the new arrangements regarding staffing (paragraph 6) and information flows (paragraph 7) do not lead to Boards being burdened by external vetting to an extent detrimental to their effective conduct of the businesses.

In other words to contain the requests for more money

Better self-regulation of nationalised industries

8. The absence of any real threat of bankruptcy and the relative weakness of market forces in some, though not all, nationalised industries is a factor that must be recognised; it imposes a duty on the Government to ensure on behalf of the nation that the industries are efficient. Monopolies and Mergers Commission (MMC) references are the Government's principal instrument for securing an external public audit of industries' efficiency. Alternatively, enquiries by consultants may in some instances be appropriate. Following its undertaking in response to the PAC (Cmnd 8323), the Government proposes to announce very shortly an extended programme of MMC references, on the lines described in the Annex.

9. However, the principal pressure towards increasing efficiency must come from within the industries. The Government will therefore

wish to be satisfied that each Board has effective systems for reviewing all aspects of efficiency and that the necessary follow-up action is taken when scope for improvement is found.

10. Under the statutes the pursuit of efficiency is a major responsibility of the whole Board, under the Chairman. But the Government has been considering whether, without weakening the unity of the Boards, which is crucial to the effective conduct of the businesses, ways can be found of giving the non-executive directors a still more positive role in this area than hitherto. This could be achieved in four main ways:

(a) Each Secretary of State when appointing non-executive directors would make clear to them the particular interest which he would wish them to take in the efficiency of the business.

(b) In addition, the Secretaries of State would invite the Chairmen to consider whether the non-executive directors could be charged with specific tasks. For example:

(i) to keep a watch on whether the industry is moving in accordance with agreed objectives and if not to draw this to the attention of the Board;

(ii) to take special interest in the internal efficiency of the industry and to ensure that best management practice is maintained;

(iii) to identify and draw to the attention of the Board any matter requiring special efficiency inquiries and to ensure that external efficiency audits, whether undertaken by the MMC or any otherbody, are followed up.

(c) The Boards would be asked to consider the setting-up of Efficiency Audit Committees consisting of non-executive directors or similar bodies where these do not already exist.

(d) It is envisaged that the non-executive directors would also play a major role, alongside the Chairman and other Board members, at a meeting with the Secretary of State at least once a year to report on progress towards agreed objectives including efficiency objectives. This meeting would also provide an opportunity to review any improvements needed in the industry's relationship with the Department.

11. Secretaries of State propose to discuss with Chairmen the constitution of their Boards. In these discussions, full account will be taken of the particular circumstances of each corporation, including statutory requirements. However in the Government's view there should generally be a majority of non-executive directors. It is also essential that they should have appropriate business and other experience and be of the right calibre. This would enable them to exercise a major influence on the work of the boards so to reassure public opinion that the boards are effective self-regulating bodies despite some lack of market forces. Ministers also see a strong case for smaller boards wherever possible less than 12: the larger the board the less the opportunity for constructive discussion by all members and the more key decision-making is likely to devolve to smaller groups.

Other proposals

12. To strengthen the interchange of experience between public and private sector businesses, the Government believes that executive members of nationalised industry Boards should be positively encouraged to take up non-executive directorships in the private sector to the extent that the Secretary of State considers, in the individual cases, that this is compatible with their prior commitments to their Boards.

13. Because many of the industries are very large, encompassing a variety of different activities, the Government would like in general to see parts of the industries designated as cost or profit centres, and producing management accounts which allow their success in these connections to be assessed. Only the Board has the detailed knowledge to assess what sub-division makes sense for each industry. But the Government believes that the potential benefit of individual

cost or profit centres for policy making could be considerable, for example, to expose the extent of cross-subsidisation. Furthermore, sub-division of some, though not necessarily all, industries should make them more easily manageable and thus bring efficiency gains.

Conclusion

14. The foregoing paragraphs give no more than the broad thrust of the Government's proposals with an outline of the reasoning behind them. More detailed points and the implications of the recommendations for individual industries can only be constructively discussed in dialogues between Chairmen and their respective Secretaries of State. The Government proposes that after a preliminary general discussion in the Nationalised Industries' Chairmen's Group, these detailed consultations should be the next stage.

Notified Mrs

CS AO

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Qa 05789

26 January 1982

Agreed with Mr Ibbs not to submit this paper MCS 5/2

Note Robin Ibbs and Treasury phoned; now overtaken by events. Amat revised note from Treasury

MCS.

To: PRIME MINISTER

From: J R IBBS

Nationalised Industries: Follow-up to the CPRS Report

1. The Chancellor's minute of 25 January asks colleagues in E(NI) to agree to a revised version of the document approved by the Committee on 19 November, as a basis for consulting individual Chairmen on the Government's proposals stemming from the CPRS Report.

2. The CPRS was not consulted on the changes in the document, or associated with the further discussions with Sir Robert Marshall following the Chancellor's meeting. Hence I am at some disadvantage in assessing just how these changes were arrived at. Some flexibility on points raised by the Chairmen is appropriate. But I have to say that in my view the changes move some way from what the CPRS recommended and E(NI) agreed. They appear to represent significant weakening right at the start of the new approach to the industries that the Government was seeking. I am mainly concerned about the following points:-

(i) Paragraph 4 now says that the Government's objectives for the industries "should proceed from and reflect the statutory duties of the Boards". This seems to me to go too far. Clearly, as the Chancellor says, the Chairmen want to emphasise their statutory position. But if the setting of objectives by Government is to be meaningful, it cannot start from the statutes, but from what Ministers want from the industries. If this were to conflict with the statutes, Ministers would have to consider whether to amend the statute by legislation or to modify their objective. But in general the statutes leave many key issues open. In my view this sentence need say no more than that the objectives "would need to be consistent with the statutory duties of the Boards, and linked to financial targets and performance aims".

(ii) Paragraph 6 goes even further in saying that the Government "will not attempt to direct the businesses". This would appear to renounce the Government's statutory powers to issue general directions, and in some cases specific directions. More broadly, it seems to give up any idea of strategic direction, whether in the setting of objectives or in the corporate plan reviews which the Chancellor has himself proposed.

(iii) In paragraphs 4 and 5, the Secretary of State is to deal with the whole Board, not the Chairman. In practical terms this seems to me unrealistic. For example in settling the objectives for the industry the sponsoring Ministers would need to discuss these with the Chairman, who would then no doubt talk to his Board. If Ministers were appointing a new Chairman with the job of changing the direction of an industry, the distinction would be crucial. As the draft is now, I suggest re-inserting the Chairmen to make the second sentence of paragraph 4 read: "The Government therefore intends that Ministers should agree long-term objectives with the Chairmen and the Boards".

3. There are one or two other changes which I would want to question - for example the blurring of the involvement of non executive Directors in specific tasks relating to efficiency. But the three points above show my main concerns. If you and other Ministers share these concerns, they may wish to discuss the position at E(NI) Committee on 3 February.

4. I am sending a copy of this minute to other members of E(NI), and to Sir Robert Armstrong.

CONFIDENTIAL

cc JCW
AD

Note/ overtaken by events.
MLS.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

NATIONALISED INDUSTRIES: FOLLOW-UP TO CPRS REPORT

At the meeting of E(NI) on 3 December we agreed on a document outlining our proposals to be sent to the chairmen of the nationalised industries. I held a meeting with the main sponsor Ministers and a group of chairmen to discuss them shortly before Christmas.

2. The chairmen were concerned to stress the importance of the statutes under which they operate and the need for any new requirement to be compatible with them. Given goodwill I do not see that this need cause any real difficulty.

3. For the rest, they were mainly concerned about two points. First, they supported the idea of enhancing the role of non-executive directors and making better use of them, but argued strongly that this should not be done in such a way as to undermine the unity of their Boards, which, they correctly argued, were collectively responsible for the running of the industries. In particular, they argued that it should not be for Secretaries of State to assign duties to non-executive directors nor would it be proper for Secretaries of State to summon chairmen and non-executive directors to meetings with them separately from other members of the Board. We were able to set their fears at rest by explaining that it had never been the intention to propose arrangements which would divide the Board or which would mean that Secretaries of State would intervene in matters which were properly the responsibility of Boards.


4. Secondly, they expressed considerable reservations about the proposal to regularise and in some ways increase the flow of information to sponsor Departments and fears that the strengthening of capacity in sponsor Departments to understand the industries as businesses would, in practice, mean more interference. But they were willing to proceed to discussion of the details of these proposals with sponsor Ministers and Departments.

5. Before doing so, however, they asked for another opportunity to discuss the document amongst themselves - not all of them having been present at our meeting. As a result of that meeting, Sir Robert Marshall has asked us to accept a number of changes to the text of the document containing the Government's proposals. That document would then be the basis for discussions between the industries and sponsor Ministers and Departments. Tiresome as this is, I think there is some advantage in accepting this proposal because the chairmen will then be committed to the document as a basis for discussion and we may make better progress.

.... 6. The attached version of the document indicates the changes which the nationalised industries chairmen have proposed and which have been discussed briefly with them by my officials. I believe the changes are in part innocuous and in part reflect the agreement we reached in our discussion with the chairmen at the meeting before Christmas. I hope you and other colleagues on E(NI) can accept it as a basis for proceeding. Bilateral discussion can then get going with a view to getting all the new arrangements into force before the end of the current financial year.

7. I am copying this letter to other members of E(NI) and to Mr Robin Ibbs and Sir Robert Armstrong.

(G.H.)

25 January 1982

# THE RELATIONSHIP BETWEEN THE GOVERNMENT AND THE NATIONALISED INDUSTRIES

1. At the Government's invitation the Central Policy Review Staff (CPRS) has carried out a study of the relationship between Government and the Nationalised Industries, and has now presented its report to Ministers. The Government has considered the recommendations, and is taking steps to improve its own organisation for dealing with the industries through stronger co-ordination at Ministerial level and better understanding of business in Whitehall (see paragraphs 6 and 7 below). But some of the recommendations, which it also favours, concern the industries themselves, and it wishes to discuss the implementation of these with Chairmen.

2. The purpose of this paper is accordingly to provide for Chairmen an outline of those general recommendations that carry direct consequences for their industries, supported by a summary of the reasoning that lies behind them. It needs to be stressed that the recommendations are of a general nature. The industries are extremely diverse, both functionally and in terms of their market position, and are subject to different statutes. The ways in which the recommendations can best be implemented in individual industries will consequently require detailed discussions between Chairmen and the relevant Secretary of State. During these discussions the Government will welcome suggestions from the industries themselves.

## Basic Relationship

3. Clearly a better relationship between Government and the industries will not in itself solve all problems or remove all risk of a conflict of interests. However, an improved relationship would greatly increase the chances of dealing with difficulties more effectively. There is much to be gained from a better unity of purpose. What is required is a relationship whereby the industries move in an overall direction agreed by Government in consultation with the Boards, in an environment where there are effective surrogates to replace market disciplines where these are missing, so that direct intervention by Government becomes minimal and the responsibilities of the Boards under statute are not infringed.

Clarity of Objectives

4. A satisfactory relationship between Government and the industries requires that there should be clarity of objectives. Policy towards the industries needs to look well ahead. The Government therefore intends that Ministers should agree long-term objectives with the Boards. Such objectives would be mostly qualitative, indicating desired trends; Corporate Plans and Annual Budgets will fill in the detailed figures. These objectives should proceed from and reflect the statutory duties of the Boards and would need to be consistent with any financial targets and performance aims.

5. Such a set of objectives should remain reasonably resilient over a number of years and would form the basis of the partnership between the Secretary of State and the Board. Obviously they would not remain totally immutable in a changing environment and would sometimes need updating. If either the industry or the Government wished to change the objectives, then further consultation would be necessary. This would serve to make explicit the consequences of a change in direction. Effectiveness in relation to the objectives will provide a basis for judging management performance.

Greater Business Understanding in Whitehall

6. The environment in which some, though not all, of the industries operate lack the full competitive discipline that puts great pressure on most private sector companies, and some receive grants and subsidies. For reasons of both kinds, the industries cannot be entirely left to regulate themselves. The Government, acting on behalf of the nation, which is the owner, must be able to assess performance and ensure that any serious deficiencies are corrected. While not attempting to direct or manage the businesses, the Government must be able to understand them if it is to be effective in this role. Ministers have accepted the CPRS view that greater business understanding is needed in Whitehall

- to arrive at workable objectives agreed with the industries;
- to see that these objectives are properly translated into quantified targets, and assess performance against these targets;

- to appreciate the business implications of other decisions affecting the industries;
- to ensure that the commercial needs of the industries are properly understood and taken into account by Government.

Ministers intend to strengthen their arrangements for collective consideration of matters affecting the nationalised industries. Those arrangements will be supported by a small Review Staff which will form part of the Central Policy Review Staff. The Treasury and sponsor Departments will also take steps to strengthen both the general business expertise of the staff advising Ministers on nationalised industry matters and especially their understanding of the particular business sectors with which they are concerned.

7. Clearly also Whitehall cannot gain a better understanding of the industries unless it is adequately informed. In order to achieve this, Ministers propose to develop further three sets of existing arrangements:

(i) A regular and systematic programme for comprehensive annual assessment of each major industry. This would be centred on the industry's Corporate Plan, and would look at the commercial performance of each industry including its achievements against agreed targets, its main forward plans, and trends in pay, pricing and productivity. The sponsor Department and its Secretary of State would be in the lead, but would report to Ministers collectively on the industry's performance and prospects, and on any strategic options needing collective consideration. This would lead into the IFR and thereafter to the autumn settlement of EFLs, and the aim would therefore be to carry out these reviews so far as possible by May of each year.

(ii) Improved procedures for monitoring progress against plans. These would provide up-to-date information, on the basis of which any divergence from plans could be discussed with the industry to establish the scope for corrective action where appropriate.

(iii) Greater understanding of industries' investment appraisal techniques and the content of investment programmes. The Boards must of course remain responsible for devising and justifying their investment programmes. But Ministers need to satisfy themselves about appraisal methods and standards, and to draw on relevant information in reaching decisions about overall priorities.

Detailed proposals on these lines will be put to individual industries. In preparing them, Departments will be expected to bear in mind that the purpose of these improvements is not to second-guess the Boards in their direction and detailed management of the businesses but to enhance Whitehall knowledge and understanding so that sponsor Departments can better appreciate the business arguments and considerations put to them by the industries. A more systematic approach to reviews and monitoring will reduce the need for ad hoc requests for further information and Departments will cover this aspect in their discussions with the industries. Ministers will be concerned to ensure that the new arrangements regarding staffing (paragraph 6) and information flows (paragraph 7) do not lead to Boards being burdened by external vetting to an extent detrimental to their effective conduct of the businesses.

Better Self-Regulation of Nationalised Industries

8. As previously indicated, the absence of any real threat of bankruptcy and the relative weakness of market forces in some, though not all, nationalised industries is a factor that must be recognised; it imposes a duty on the Government to ensure on behalf of the nation that such industries are nevertheless efficient. Monopolies and Mergers Commission (MMC) references are the Government's principal instrument for securing an external public audit of industries' efficiency. Alternatively, enquiries by consultants may in some instances be appropriate. Following its undertaking in response to the PAC (cmnd 8323), the Government proposes to announce very shortly an extended programme of MMC references, on the lines described in the Annex.

9. However, the principal pressure towards increasing efficiency must come from within the industries. The Government will therefore wish to be satisfied that each Board has effective systems for reviewing all aspects of efficiency and that the necessary follow-up action is taken when scope for improvement is found.

10. Under the statutes the pursuit of efficiency is a major responsibility of the whole Board, under the Chairman. But the Government has been considering whether, without weakening the unity of the Boards, which is crucial to the effective conduct of the

businesses, ways can be found of giving the non-executive directors a still more positive role in this area than hitherto. This could be achieved in four main ways:-

(a) Each Secretary of State when appointing non-executive directors would make clear to them the particular interest which he would wish them to take in the efficiency of the business.

(b) In addition, the Secretaries of State would invite the Chairmen to consider whether the non-executive directors could be charged with specific tasks, to the extent that their Boards judge this compatible with the effective conduct of their affairs, for example:-

(i) to keep a watch on whether the industry is moving in accordance with agreed objectives and if not to draw this to the attention of the Board;

(ii) to take special interest in the internal efficiency of the industry and to ensure that best management practice is maintained;

(iii) to identify and draw to the attention of the Board any matter requiring special efficiency enquiries and to ensure that external efficiency audits, whether undertaken by the MMC or any other body, are followed up.

(c) The Boards would be asked to consider the setting-up of Efficiency Audit Committees or similar bodies where these do not already exist in which the non-executive directors would play a major role.

(d) It is envisaged that the non-executive directors would also play a major role, alongside the Chairman and other Board members, at a meeting with the Secretary of State at least once a year to report on progress towards agreed objectives including efficiency objectives. This meeting would also provide an opportunity to review any improvements needed in the industry's relationship with the Department.

11. Secretaries of State propose to discuss with Chairmen the constitution of their Boards. In these discussions, full account will be taken of the particular circumstances of each Corporation, including statutory requirements. However, Secretaries of State will approach

these talks with a predisposition in favour of appointing non-executive members in sufficient numbers (normally a majority) and at the right levels of experience and personal calibre, to enable them to exercise a major influence on the work of their Boards, and to reassure public opinion that the Boards are effective self-regulating bodies, despite some lack of market forces. Ministers also see a general case for small Boards: the larger the Board, the less opportunity for constructive discussion by all members and the more key decision-making is likely to devolve to smaller groups.

Other Proposals

12. To strengthen the interchange of experience between public and private sector businesses, the Government believes that executive members of nationalised industry Boards should be positively encouraged to take up non-executive directorships in the private sector to the extent that the Secretary of State considers, in the individual cases, that this is compatible with their prior commitments to their Boards.

13. Because many of the industries are very large, encompassing a variety of different activities, the Government would like in general to see parts of the industries designated as cost or profit centres, and producing management accounts which allow their success in these connections to be assessed. Only the Board has the detailed knowledge to assess what sub-division makes sense for each industry. But the Government believes that the potential benefit of individual cost or profit centres for policy making could be considerable, for example, to expose the extent of cross-subsidisation. Furthermore, sub-division of some, though not necessarily all, industries should make them more easily manageable and thus bring efficiency gains.

Conclusion

14. The foregoing paragraphs give no more than the broad thrust of the Government's proposals with an outline of the reasoning behind them. More detailed points and the implications of the recommendations for individual industries can only be constructively discussed in dialogues between Chairmen and their respective Secretaries of State. The Government proposes that after a preliminary general discussion in the Nationalised Industries' Chairmen's Group, these detailed consultations should be the next stage.