


CONFIDENTIAL

P.0845

PRIME MINISTER

Progress in implementing CPRS Report on
Relationship between Government and
Nationalised Industries:

E(NI)(82)25 and 27

These notes by the Central Policy Review Staff and the Chief Secretary, Treasury, are summary reports on the current situation regarding:

(i) Progress on objectives, monitoring and Board structures (E(NI)(82)25; and

FLAG A (ii) the system of performance review and corporate plan appraisal (E(NI)(82)27.

FLAG B FLAG C You will recall that you have recently received a report from the Secretary of State for Energy (minute of 26 August) on progress in the energy industries; Mr Rickett's letter of 31 August to the Department of Energy conveyed your strong approval.

2. Both notes show that progress has been made, but that there is more to be done. The details differ quite significantly from industry to industry; and I suggest that little is to be gained at this stage from an extended discussion. If the proposals in E(NI)(82)25 are endorsed, there will be appropriate opportunity for the Sub-Committee to consider individual industries.

3. I therefore suggest that you should invite Mr Sparrow and the Chief Secretary, Treasury to introduce their notes, concentrating on the points which they consider to need Ministerial attention. You might then ask the Secretaries of State for Industry, Energy, Scotland and the Environment whether they see any difficulties in the recommendations at paragraph 2(b) to (g) of E(NI)(82)25. (Paragraph 2(a) of that paper, and E(NI)(82)27 are simply recommendations to 'take note'.)



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CONCLUSIONS

4. You will wish the Sub-Committee to endorse the programme outlined in E(NI)(82)25, subject to any points that may be made in discussion.

PLG

P L GREGSON

Cabinet Office

7 September 1982

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10 DOWNING STREET

From the Private Secretary

31 August 1982

The Prime Minister has seen your Secretary of State's minute of 26 August, in which he reports to E(NI) on the progress of bilateral discussions with the nationalised energy industries in implementing the proposals in the note sent to the NICG, and on the composition of the Boards of the industries. The Prime Minister has asked me to say that she considers the arrangements that your Secretary of State has made to be quite excellent.

I am sending a copy of this letter to Richard Hatfield (Cabinet Office).

L. W. F. S. RICKETT

Julian West, Esq.,
Department of Energy.

HL

PRIME MINISTER

Thatcher *Li Sullivan* *Assignments* *Minister* *2 PPS 2* *CC JV*
MS
hm
26/8

At meetings of E(NI) *see P+6* earlier this year we agreed that sponsor Ministers should report to the Committee:

- i. on the progress of bilateral discussions with the industries in implementing the proposals in the note sent to NICG;
- ii. on what adjustments to the Boards of the industries are desirable in order to improve their effectiveness.

Bilateral Discussions

On objectives, the substance of our objectives for the NCB has been fully accepted by the new Coal Board Chairman, Norman Siddall. I have written to colleagues with the final version of the CEGB objectives: I believe these will be generally acceptable to the new CEGB Chairman, Sir Walter Marshall. Once these are settled, we will be able to establish objectives for the electricity supply industry as a whole. The draft BGC objectives are currently being discussed at official level with the Treasury and CPRS. I hope to be able to put them to colleagues soon.

I have written to the chairmen of the industries to open discussions on other items in the NICG note. Officials, with the co-operation of the Treasury and CPRS, are working with the industries to develop our technique of monitoring and producing performance reviews as background to consideration of the corporate plans. Both BGC and the CEGB have already formed efficiency audit committees drawn from their non-executive directors.

Nationalised Industry Boards

As we agreed when we discussed this on 11 May, more important than any abstract recipe for the size or structure of the Boards is the quality and mixture of abilities of the individuals who comprise them. I have already taken a number of steps and will be taking more over the next year to improve the performance of the Boards for which I am responsible.



In the case of the NCB, the last few months have been dominated by the appointment of a new chairman and two new deputy chairmen. I have taken steps to improve the efficiency of the Board's workings by regrouping all the main activities of the Board under the deputy chairmen, the senior of whom has been given specific responsibility for improving co-ordination in areas where it has been weak in the past. I plan to strengthen the Board further over the coming year.

As for BGC, I have substantially strengthened the Board by the appointment of 3 new top-flight part-time members from the private sector, one (Martin Jacomb) from the City and two (Derek Birkin and Sir Leslie Smith) from industry. The number of full-time executive members has been reduced from 7 to 5. Two BGC Regional Chairmen are also part-time members, though one resigns in August and will not be replaced. The current deputy chairman also retires next June and I am using this opportunity to reconsider the role of that position on the Board. I am satisfied that the appointment of the 3 new high-calibre part-time members has already improved the overall quality of the Board and do not propose, at present, replacing any members before their appointments expire.

The current structure of the Electricity Council, numerically dominated by the Area Board chairmen, is governed by statute and changes can be considered only in the context of changes in the structure of the industry as a whole. What matters most on electricity, however, is the CEGB Board. This currently consists of 5 executive and 5 non-executive Members. It has been greatly strengthened not only by the appointment of Sir Walter Marshall as Chairman, but also of Eric Sharp and Richard Giordano as non-executive members. I will wish to discuss further changes with Walter Marshall as he settles in. The Area Electricity Boards currently have 9 members each, of which two, the chairman and deputy-chairman, are full-time executives. There is a constant flow of appointments to these Boards, and in making them I am continuing the policy of strengthening their industrial/business experience.

I am copying this minute to colleagues in E(NI)

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in the past, the fact that the law has been passed is a relief to the industry. I have been struck by the fact that the industry has been so successful in its efforts to secure the passage of this law. I am sure that the industry will continue to be successful in its efforts to secure the passage of this law.

26 Nov 1934
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 U.S. DEPARTMENT OF COMMERCE
 DIVISION OF RESEARCH AND STANDARDS

As you are aware, I have substantially completed the work on the investigation of the electrical industry. The work has been done in cooperation with the Bureau of Standards and the Bureau of Mines. I am sure that the results of this work will be of great value to the industry and to the Government.

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The Bureau of Standards is currently engaged in a study of the electrical industry. This study is being conducted in cooperation with the Bureau of Mines and the Bureau of Commerce. The results of this study will be of great value to the industry and to the Government.

I am hoping this finds its way to you (L)



cc JD
Prime Minister 2
WR
12/8

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From the Secretary of State

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

12 August 1982

Dear Michael,

FOLLOW-UP TO CPRS REPORT ON NATIONALISED INDUSTRIES

E(NI) on 8 March invited sponsor Ministers to report by the end of July on progress made with discussions with the chairmen of the nationalised industries they sponsored on the implementation of the CPRS report on nationalised industries; on 11 May, the Committee asked Ministers to include in their report how they proposed to apply the CPRS recommendations on board size and composition.

Next Ind.
Policy
P46

I summarise below progress to date on the main CPRS proposals in relation to British Airways and the British Airports Authority.

A Objectives

For British Airways these were agreed in discussion between my Secretary of State and Sir John King on the basis set out in the Secretary of State's minute of 3 March to the Prime Minister, with the addition of an overriding objective, which Lord Cockfield believes encapsulates the detailed objectives, that British Airways should be "floated off as a prosperous, efficient private sector company standing in high repute with its customers, its staff and its shareholders". In view of the current litigation, the British Airports Authority are understandably and acutely sensitive to the statutory basis of their relationship with the Secretary of State. They are therefore concerned that any changes we propose in our relationship should not lay them open to further challenges in the courts. They have not therefore formally responded yet to the draft objectives agreed by E(NI). Following recent contacts, we believe that progress can be made on the draft objectives agreed by E(NI) but perhaps more slowly than with some other less exposed nationalised industries.

B Corporate plan and performance reviews

The CPRS's main proposals have been agreed with both BA and the BAA.

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From the Secretary of State

C Monitoring

British Airways have agreed in principle to let us have on a regular basis broadly the same information that now goes to the Board. Price Waterhouse have been advising BA on how to improve the information going to the Board and their proposals were rather similar to those of the CPRS. The newly appointed Chief Financial Officer will also have views on what the Board needs. We have not yet started receiving this more detailed information from BA, but we are pressing them to introduce the new arrangements as soon as possible. BA have provided us with a phased budget, as they had already done last year. Agreement has been reached with the BAA on improved monitoring arrangements and the provision of a phased budget; these arrangements have now been implemented.

D Board size and composition - self-regulation

Sir John King's major preoccupation in this area has been the structure of British Airways' Board and he has recently proposed some changes. He has not yet responded on other aspects of the CPRS's proposals. He is giving further consideration to the question of establishing an enhanced committee structure on the Board, including the possibility of an internal audit committee. The BAA have received a report from Professor J Hunt of the London Business School on their internal management structure and implemented almost all its findings, including the creation of a new corporate planning section, the strengthening of the internal resources devoted to audit of performance, and a re-structuring of senior management responsibilities. (As an interesting innovation for a nationalised industry, the BAA has this year, for the first time, published its own performance review as an adjunct to its annual report and accounts). The BAA Board already accords with the CPRS recommendations on size, and it has a majority of non-executive directors. It established an internal audit committee some years ago; though its composition includes executive members of the Board. It has been agreed that the Chairman and other full-time members of the Board may seek part-time directorships to widen their experience (we had previously agreed this in principle in the case of BA). Both the BAA and BA have increased financial responsibility for individual senior managers (in the case of BA through a new divisionalised structure).

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

Yours sincerely,

JOHN RHODES
Private Secretary



PRIME MINISTER

PROGRESS IN IMPLEMENTATION OF CPRS REPORT ON RELATIONS BETWEEN GOVERNMENT AND NATIONALISED INDUSTRIES

It was decided at E(NI)(82)4th Meeting that sponsoring Ministers should report as at the end of July on progress in implementation of the major recommendations (other than those concerned with increasing expertise in Departments).

2 Below I give an account of the position in relation to each of the industries sponsored by my Department.

THE POST OFFICE

3 I have discussed with the Chairman the points set out in the paper circulated by the Chancellor to members of the NICG.

4 Mr Dearing was in agreement with the broad thrust of the paper, but made the following points:-

there would need to be effective recognition of the diversity of nationalised industries;

the allocation of special roles to non-executive directors should not be allowed to destroy the unity of the Board;



there were an excessive number of bodies and organisations probing and asking for information; he preferred to deal only with the sponsor Department;

there was no objection to monitoring performance and setting objectives, but a detailed analysis of methods and systems was inappropriate.

5 I have some sympathy with all these points, particularly in the context of an industry which is operating profitably and is not a continual drain on the tax payers' money. At the same time the Post Office has invested in it a considerable amount of Government money and some oversight is essential. It is a question of finding the right balance.

6 On Board size and composition, the statute allows for 12 Board members, although at present there are only 11. The Chairman does not wish to increase the size of the Board though should he choose to do so I would expect him to propose to fill the vacancy with a part-time member. From the end of August, taking into account our wishes, the Board will be composed of a full-time Chairman, 5 full-time executives and 5 part-time Board members. In addition steps are in hand which should result in the appointment of two of the executive members as non-executive directors in the private sector. Consideration is also being given to devising a system whereby both the Chairman and Board members might be paid by results.



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7 I do not think that it would be productive to attempt to press the Chairman to make further changes. The Post Office Board was, as you know, reconstituted less than a year ago, following the split of the old Post Office and British Telecom. Its structure was designed partly with the streamlining of senior management in mind and this will have enabled the chairman to cut out by September of this year the two most senior management levels on the postal side and to reduce the next level down by at least 3 posts.

8 Bearing in mind that the next expiry of a full-time Board appointment will be on 31 December 1983, I think that the Board structure from August this year can be regarded as a sufficient recognition of our wishes.

BRITISH TELECOM

9 My proposed objectives for the industry in the period before privatisation were taken by E(NI) on 26 July. I will now put the objectives to Sir George Jefferson. I met the full BT Board on their Corporate Plan, and put my Corporate Plan review to E(NI) also on 26 July. There are a number of matters arising from that review that I will be taking up with the Corporation.



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10 Separately, my officials are seeking to improve the quality of information that we receive from British Telecom, specifically in the area of receiving a calenderised funds flow statement.

11 I have not pursued with British Telecom the question of Board size and composition. This is because the British Telecom Board is effectively set now for some time, since it was appointed only last October when the Corporation was formed. With our privatisation proposals, BT should now become a Companies Act Company before we would have the opportunity for any substantial alteration to the structure of the Board - which any way is not too far from reflecting the CPRS's proposals. We may, as sole shareholders before a sale, wish to consider the implications of Board Structure and membership for this, but this is a separate question.

BRITISH STEEL CORPORATION

12 We have, as you know, carried out a review of their past performance and of their Corporate Plan 1982/85; this review was considered by E(NI) in June when the EFL for BSC for 1982/83 was decided. We have continued to monitor BSC's performance in detail on a monthly basis. I have not yet held a discussion with Mr MacGregor on the future size and composition of the BSC Board: my main consideration here is first to ensure that there will be an effective top management team at BSC after the expiry of Mr MacGregor's term of office in June 1983.



BRITISH SHIPBUILDERS

13 Some of the points in the paper to the NICG eg strategic objectives have already been broached with the BS Chairman and action is in hand on some others, eg the Corporate Plan and performance monitoring, while BS has already created individual profit centres in moving to a divisional structure. However there has not as yet been a suitable opportunity to discuss the paper as a whole with Mr Atkinson.

BL AND ROLLS-ROYCE

14 These are not, of course, Nationalised Industries nor are their Chairmen members of the NICG. However, they were included in the scope of the CPRS Report, and I have communicated the main proposals to Michael Edwardes and Frank McFadzean.

15 I have not felt it necessary to meet Michael Edwardes to discuss the paper given to NICG since his company's few comments on our proposals, which he wrote to me about, were not contentious. The BL Board is already of the size and composition suggested by the CPRS - small and with a majority of non-executive Board members.

16 I have discussed Board size and composition and the role of non-executive directors with Frank McFadzean whose reaction was



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pretty negative. Rolls are of course operating in a highly competitive environment and the discipline of the market place requires that they pay close attention to efficiency. I believe that Rolls is as much disciplined by the market place as by Government control and direction and to a large extent therefore the recommendations would not be appropriate in their case. Our existing monitoring arrangements are close to the CPRS model. The Government's main concerns are in relation to financial performance and I am generally content with the present arrangements on financial monitoring of Rolls.

17 We are considering revised objectives for Rolls-Royce in connection with the appointment of a new Chairman.

18 I am sending copies of this minute to the members of E(NI), Sir Robert Armstrong and John Sparrow

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2 August 1982

Department of Industry
Ashdown House
123 Victoria Street