



PRIME MINISTER'S LUNCH WITH THE NEB, WEDNESDAY 26 NOVEMBER

The lunch will provide a useful opportunity for the Prime Minister to assess the NEB's progress since the new Board was appointed a year ago and for an informal exchange of views on the way the NEB is operating under its new Guidelines.

2. All the Board members will be attending the lunch (list attached). Mr Allport (September) and Sir George Macfarlane (November) are recent appointments. Sir John King, who will become a part time member of the British Airways Board on 1 December and Chairman on 1 February 1981, plans to resign as Deputy Chairman of the NEB around the end of this year. Mr Dibbs will become Deputy Chairman of BA on 1 February but has agreed to remain with the NEB for a further few months.

Background

3. The Industry Act 1980 removed the Board's functions of extending public ownership and of promoting industrial reorganisation and industrial democracy. It also gave to NEB the new function of disposing of its assets to private ownership. Within this narrower framework, the NEB's new Guidelines (introduced in August 1980) have given the Board a catalytic investment role in connection with companies developing or exploiting advanced technologies; companies in the English Assisted Areas; loans up to £50,000 for small firms; and the Board's existing investments. The Guidelines also require the Board to seek maximum private sector participation in its new investments, and to dispose of all existing investments to private ownership as soon as commercially practicable.

4. The greater part of the Board's first year in office has been spent dealing with the immediate tasks of the Inmos review and of disposing of their shareholdings in ICL, Fairey and Ferranti. With these out of the way they have been giving priority to reviewing their other investments with a view to identifying further candidates for early disposal. Internally they have also been conducting a major review of the NEB's internal structure in order to stream line operations and ensure tight financial control.

5. This has allowed relatively little time for considering new initiatives but the Board have recently made promising investments

0-4 volume
0-6 volume

0.65 (7.75)
0.8 (10.25)

1.3 hr

1.4 hr

1.4 hr



in a new biotechnology company (Celltech Ltd) and in a Venture Capital Fund to promote high technology projects in the English Assisted Areas.

Progress to date

(a) Disposals

6. The Board are well aware of the importance which the Government attaches to maintaining momentum in disposals and have established a special Division with this in mind. Since they were appointed in November 1979, the Board have sold the NEB's shareholdings in 8 companies in addition to transferring Rolls Royce to the Secretary of State. As part of their review of the NEB's other investments they have also put 6 companies into receivership or liquidation. In particular they decided in May 1980 that no further investment would be justified in Herbert Ltd, which has now gone into receivership following disposal of its various subsidiaries.

7. A list of disposals is at Annex B. Further candidates are under consideration.

(b) New investments - (i) - Inmos

8. Following the Government's approval of the NEB's Inmos review earlier this year, the company announced plans on 29 October to locate the UK factory at Newport in South Wales.

(ii) Celltech Ltd

9. At the end of July the NEB announced its plans to take a 44% stake in a new biotechnology company (now known as Celltech Ltd) to develop and sell to industry products and know-how arising from UK research in biotechnology. This will be based in particular on collaboration with the Medical Research Council. The remaining 56% is held by 4 private shareholders, each with 14% (Prudential Assurance, Midland Bank, British and Commonwealth Shipping, and Technical Development Capital).

(iii) Venture Capital Fund

10. On 20 November the NEB announced the establishment of a £2 million Venture Capital Fund to be managed jointly by the NEB and Mr Jack Melchor, a US entrepreneur with a reputation for flair in identifying successful new technology projects. Its principal object is to invest with private sector partners in new high technology companies in the English Assisted Areas. Mr Melchor has already identified two potential US investors in the fields of video display terminals and micro-computer parts.



(c) NEB's Half Yearly Results

11. The NEB's Interim Statement published in October revealed a £5.8m loss after tax in the period 1 January to 30 June 1980. This was disappointing but not surprising. Losses in the three major high-technology start up companies (Inmos, Nexos and Insac) are unavoidable at this stage in their development and totalled £7.8m. Herbert's lost £2.6m (hence the decision to close the company), and the disposal of ICL removed one of the NEB's high profit makers.

Relations with Government

12. Board members may raise the following:

(a) BL Ltd - The NEB have made it clear that they are anxious to hand over responsibility to HMG as soon as possible. The Secretary of State wrote to Sir Arthur Knight in July to explain that any decisions on a transfer could most sensibly be made at the same time as the Government took a view on the 1981 Corporate Plan. If BL is raised the Prime Minister might confirm that she is fully aware of the Board's strong preference but a final decision should await consideration of Corporate Plan.

(b) NEB's Financial Duty

The previous financial duty which gave the NEB the target of achieving a rate of return on capital of 15-20% by 1981 is now inoperative because of the Board's disposal of its profitable investments.

Discussions have been taking place on a new form of duty with the aim that this should come into effect on 1 January 1981. To clear the way for this, the new Industry Bill provides for the writing off the NEB's irreparable losses made under their previous Guidelines. The Board are anxious that the duty should be 'commercial' to facilitate their task of securing private sector participation in their investments. The Department of Industry accepts this broad objective but is anxious to ensure that the new duty preserves the NEB's disposals' function while providing an adequate framework of accountability.

If the financial duty is raised the Prime Minister might note what the Board has to say. The duty is a complex issue which officials will have to explore very carefully.



(c) Membership of the Board

Further appointments will be needed in the next few months to keep the Board up to strength when Sir John King and Mr Dibbs depart. The Chairman is keen to strengthen the Board's experience and technical knowledge in operating their high technology role. The Department is identifying candidates.

The TUC have recently reviewed their interest in trades union membership of the Board. The Prime Minister will not want to raise this matter herself but she should be aware that Sir Arthur Knight has strong reservations about it because of the risk that it could undermine the NEB's commercial approach and generate pressure for the NEB to take on rescue cases. But he recognises that Ministers would not wish trades union membership to be ruled out or to snub the TUC. Sir Arthur expects to discuss the matter further with TUC leaders in December.



CHAIRMAN

Sir Arthur Knight

Formerly Chairman Courtaulds (1975-79)

DEPUTY CHAIRMAN

Sir John King

Chairman, Babcock International

CHIEF EXECUTIVE

Ian Halliday

Formerly Finance Director of brokers Leslie and Godwin. Between 1974 and 1977 served on secondment as Deputy Director of the DoI's Industrial Development Unit.

MEMBERS

Denise Allport

Chairman, Metal Box

Sir Robert Clayton *

Technical Director, GEC

Alex Dibbs

Deputy Chairman, National Westminster Bank

Jack Emms

Chief General Manager and a Vice Chairman, Commercial Union Assurance

Sir George MacFarlane

Career in Government research and development, specialising in electronics and radar. Now a part-time member of the Post Office Board.

Dennis Stevenson

Chairman of Peterlee and Newton Aycliffe New Towns

* Robert Clayton has resigned -
 because of pressure of work
 and conflict of interest -
 and will not be attending.

R.



NEB DISPOSALS

(a) Sales of Shareholdings

Brown Boveri Kent (Holdings) Ltd	-	October 1980
Barrow Hepburn Group Ltd	-	October 1980
Fairey Holdings Ltd	-	June 1980
Ferranti Ltd	-	July 1980
ICL Ltd	-	December 1979
Middle East Building Services Ltd	-	August 1980
Newtown Securities Ltd	-	October 1980
Rolls Royce Ltd	-	August 1980
RR Chapman (Sub-Sea Surveys) Ltd	-	March 1980

(b) Receiverships etc

ASR Servotron Ltd	-	May 1980
Herbert Ltd	-	October 1980
J & P Engineering Ltd	-	March 1980
Mayflower Packaging Ltd	-	December 1979
Pakmet International Ltd	-	December 1979
Vicort of London Ltd	-	February 1980

SIR ARTHUR KNIGHT

THE RT.HON. MRS
MARGARET THATCHER, MP

MR J.F.G. EMMS

SIR JOHN KING

MR H.D. STEVENSON

MR D. ALLPORT

SIR GEORGE
MACFARLANE

MR A.H.A. DIBBS

MR W.B. WILLOTT

MR I.F. HALLIDAY

MR T.P. LANKESTER