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PRIME MINISTER

MS

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INDUSTRY BILL

It is hoped that the attached brief will prove of use for the Second Reading Debate on the Industry Bill on Monday 1st December 1980.

Contents

Conservative Research Department
32 Smith Square, London. SW1

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i) <u>Introduction: Purposes of the Bill</u>

This is the Conservative Government's second Industry Bill. The first Industry Bill (now the Industry Act 1980 having received the Royal Assent on 30th June) modified the functions of the National Enterprise Board, Scottish and Welsh Development Agencies and the English Industrial Estate Corporation and gave statutory force to changes already given effect in regional policy.

The purposes of this second Industry Bill are very different. They are four-fold and largely independent of each other; this is reflected in the quadri-partite structure of the Bill. The first section (clauses 1 and 2) relates to the need to set new financial limits for the NEB and the Secretary of State, which in fact means for British Leyland and Rolls Royce. This is the main purpose of the Bill.

The second section (clauses 3 and 4) relates to the future setting of financial duties for the NEB and the Scottish and Welsh Development Agencies, adjusting their capital base accordingly. The financial duties themselves will be published in due course and will reflect the changes made in their functions by the 1980 Industry Act and the guidelines issued under it.

The third section of the Bill (clause 5) relates exclusively to the extension of the operation of two special schemes of redundancy payments by British shipbuilders and by Harland and Wolff. The schemes would otherwise expire on 1st July 1981. Although the Bill does not itself extend the schemes the Secretary of State will be coming before the House of Commons with an order which would provide for this to be done.

The fourth and last section of the Bill deals solely with the separate question of the Government's response to the Finniston Report on the Engineering profession. Clause 6 allows the Secretary of State to make grants or loans to any body which he considers appropriate to assist in promoting engineering and improving links between industry and educational bodies, and to guarantee obligations incurred by a body established by Royal Charter for this purpose.

The Bill would, as its financial memorandum makes clear, have an impact on public expenditure. The first section makes provision for further public expenditure within the Government's future public expenditure plans. The restructuring of the capital base of the NEB and the Development Agencies covered in the second section of the Bill relates to public expenditure already incurred, so there are no additional public expenditure effects. The third section's impact through making possible an extension of the redundancy payments schemes will depend on Parliamentary approval of an order and on the amount of capacity reduction in the shipbuilding industry. The average payment under the schemes is about £3,300 per employee. The final section, relating to the engineering profession, is described in the Financial Memorandum as not implying an increase in the £1 million the Secretary of State already incurs for the purposes described therein.

ii) Clauses 1 and 2: British Leyland and Rolls Royce

a) The Financial Limits

Clause 1 increases the National Enterprise's financial limit to £2,251 million and sets a new limit for the purposes of section 3 of the 1980 Industry Act at £1,500 million. These new limits refer principally to British Leyland and Rolls Royce.

The NEB's present limit is £2,250 million of which £1,500 million is for British Leyland. The rest of this sum is used for financing the NEB's other investments. The increase of £1 million for which the Bill makes provision is, of course, a token figure, which will be amended when the Government has concluded its consideration of BL's corporate plan and made a decision upon the financing of its future investment.

The Secretary of State's limit made under S.3 of the 1980 Act is to be increased from £750 million because of the increased cash requirements of Rolls Royce. It will be remembered that Rolls Royce was transferred from the control of the NEB to the Department of Industry in November 1979, a move which precipitated the resignation of Sir Leslie Murphy and the rest of the Board. The Secretary of State's decision to transfer control of RR to himself was taken because of the special needs of the company, its uniquely prestigious role in world markets, its heavy cash requirements, its close relations with and dependence on government as purchaser - and because the NEB's own role monitoring RR's performance was in fact of small importance. The increase of the Secretary of State's financial limits for which this Bill makes provision reflects these circumstances.

b) The Needs of British Leyland

The details of BL's corporate plan, which has been submitted to the Government, have not been published, although it is widely reported that Sir Michael Edwardes may have requested a further £800 million or £1,000 million over the next two years for restructuring and new investment. BL's ambitious recovery plan has only made its first costly step forward with the apparent success of the Mini-Metro, which captured about 7 per cent of the market during the firs 19 days of this month, pushing BL's home market share of new car sales up to about 24 per cent.

The Metro plant at Longbridge required about £275 miilion in investment, but the development costs of the rest of BL's new range are likely, according to reports, to be relatively less. The new Honda-Bounty to be built at Cowley, Oxford will probably have required less than £100 million by the time of launching later next year. Production will be about 2000 a week, 1000 less than the Metro's current rate. The new medium range LC 10 which is scheduled for launching in 1982/3 and which will replace the Maxi is now to be built at Cowley and will require rather more investment; it is the main potential recipient of BL's requested cash and BL consider it should be profitable. BL also wish to develop a new Jaguar code-named XJ40 reportedly to be launched in 1984 at a cost of £70 million.

The acceptance of BL's recent 6.8 per cent pay offer after a majority of factory meetings voted against disruptive action has demonstrated welcome realism among the work-force and the recent strike which held up Metro production has come to an end. However, the Government will be making its decisions on the corporate plan bearing in mind the difficulties which the automobile industry is facing world-wide and the fact that BL made a substantial loss of £155 million in the first half of this year. There will be a Parliamentary debate on BL funding.

c) The Needs of Rolls Royce

Rolls Royce's overall position is, of course, very different from that of BL. RR's order books are healthy; but its profitability is poor. Indeed its net loss in the first half of 1980 nearly doubled to £17 million. In 1979 as a whole RR lost £63 million. The main problem RR has been facing is that the increase in the value of sterling has worked against its profitability, particularly in its US sales. The House of Commons Public Accounts Committee has criticised the monitoring of RR's exchange rate assumptions for those of its contracts for which payment was to be received in dollars. RR is, however, still battling with its American aero-engine competitors in order to gain further very valuable orders for its latest version of the RB 211.

The Government has already had to make further provision for Rolls Royce for this financial year. On 28th April 1980, Mr. Adam Butler, Minister of State for Industry, announced that in the light of the company's additional cash requirement of £180 million the Department of Industry would issue new equity equivalent to certain loans from the Do I to be repaid in 1980 and "modify the terms of the levy which the Government charges the company to recover the development finance for the RB 211 engine".

iii) Background to Clause 6: Response to the Finniston Report

The Committee of Inquiry into the Engineering Profession under the Chairmanship of Sir Monty Finniston was set up by Mr. Eric Varley, thenSecretary of State for Industry, on 5th July 1977. On 16th November 1979 - at a cost of £401,130 - it was presented to Sir Keith Joseph.

The most important recommendation of the Finniston Report (for details of which see CRD Brief PCC (80) 9 of 1.6.1980) was for the setting up of a new Engineering Authority to act as an "engine for change" to overcome the "inertia and negativism of prevailing attitudes towards engineering".

The Authority would

"- promote the engineering dimension in all areas of the UK economy in furtherance of national economic needs.

- initiate, maintain and otherwise encourage activities directed at ensuring the continuing supply and best use of engineering manpower.

- work with all bodies and institutions whose activities affect national engineering capabilities in all sectors in order to enhance these capabilities" (pp 152-3)

The Report emphasised that the Authority should have a statutory base and direct funding of its own. Its Executive Board would consist of 15 to 20 members, initially appointed by the Secretary of State, in consultation with other relevant bodies. Subsequently, when fully established it would be possible to have a system of elections. Below the Chairman and Members would be standing and task committees. The Authority would "in nearly all respects" (p. 156) work through other institutions.

The Authority would need to be funded for its executive functions especially the accreditation of courses and the operation of the register and for the provision of finance for special studies and priming education and training schemes.

The Finniston Report estimates the annual total cost of running the Authority as £10 million p.a. at current prices. It envisages that these costs could be offset "slightly" (p. 157) by charges. There is also the possibility of some activities being jointly funded with industry.

The Authority would report annually to the Secretary of State.

Reactions to the Report were mixed. The Council of Engineering Institutions, for example, rejected the need for a new authority. The Institute of Mechanical Engineers wanted a new body funded by the engineering profession rather than a 'quango'. The CBI plumped for an Authority operating under Royal Charter and governed mainly by practising engineers.

The Government studied the report and the reactions to it. On 7th April 1980 Sir Keith Joseph announced the Government's proposals which lie behind clause 6 of this Bill.

He said:

> "The Government does not propose the establishment of a statutory body. Instead it proposes to facilitate the emergence of such a focal point by recommending to the Privy Council that Her Majesty the Queen should be advised to constitute a new body by Royal Charter. The Government, after full consultation with those concerned, would be prepared to nominate the initial members of this body, but only for a limited period. The central responsibilities of the body would be similar to those recommended by Finniston centering upon the accreditation of engineering education and training and the formal registration of those engineers qualified thereby. However, instead of the new body itself organising accreditation visits and assessments of individual registrants, I would expect this work to be delegated to nominated institutions, the new body simply determining the standards to be applied. The Government would expect the Chartered body to become quickly self-financing but the Government will be prepared to support initial funding."