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Prime Minister <sup>(1)</sup>  
Agree to Owen's suggestions

AT

25/9

25 September 1984

PRIME MINISTER

Yes - could we put it tactfully to DTI

COMPETITION ACT 1980: SECTION 11 REFERENCES OF NATIONALISED  
INDUSTRIES TO THE MONOPOLIES AND MERGERS COMMISSION

Norman Tebbit has written to colleagues to outline a programme of references for 1985: an aspect of British Airports Authority, two Scottish Electricity Boards, an aspect of British Steel, and a Regional Water Authority (plus, possibly, British Waterways Board).

Two aspects of this programme are worthy of comment:

1. Focus. It is our impression that each nationalised industry "gets its turn" in the programme, irrespective of size. This approach makes it clear that no industry is to be excluded. We see good reason, for example, to try to bring the British Waterways Board into the 1985 programme. However, it is as important to get the right focus on the industries which account for the most resources - electricity, gas, coal, BSC - because mismanagement in these industries can cause damage to the economy. The BSC reference must be a substantial one.
2. Follow-up. Do these reports lead to effective action? Our impression is that the majority of the reports are excellent yet even their most damaging criticisms lead

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to very little visible action which we can point to as examples of steps to improve management in the public sector. For example, how has the NCB responded to the MMC's criticism that ". . . NCB's plans have been designed to support submissions for investment finance. They have not permitted assessment of whether funds provided in the past have been well spent, nor have they provided estimates of the return promised on new capital" (MMC Report on NCB, 1983, p. 375).

The Report also noted (p.377) that "one third of NCB's expenditure on major capital projects has gone into collieries which are either unprofitable or of doubtful profitability". Is this improving?

We suggest that there is a need for the MMC to carry out post-audits to check on progress since its first report, particularly where these reports revealed serious weaknesses or problems, such as restrictive practices (Southern Rail, postal services) or poor investment appraisal (NCB, CEGB).

We recommend that:

1. The 1985 programme should include one post-audit. This would establish the point that MMC reports are intended to stimulate action. CEGB, Southern Rail and NCB are prime candidates.



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2. The "aspect of BSC" should be the management of the capital programme. Like the NCB, BSC invests and loses money on a grand scale. It is not clear whether or how their proposals are related to markets, whether they are approved by Ministers, or whether they are post-audited in BSC itself.
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