

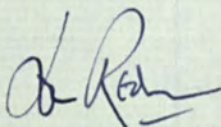
NBSM
AT 17/1

16 January 1985

MR TURNBULL

I have seen Nigel Lawson's letter to Norman Tebbit concerning the follow-up of MMC reports.

I agree with the Chancellor's recommendations.



JOHN REDWOOD

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Policy Part 9

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Toward response

AT 15/1

BIP 23 Jan

CC Policy Unit

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

The Rt Hon Norman Tebbit MP
 Secretary of State for Trade
 and Industry
 Department of Trade & Industry
 1 Victoria Street
 London SW1H 0ET

11 January 1985

John Norman

FOLLOW-UP OF MONOPOLIES & MERGERS COMMISSION REPORTS ON THE NATIONALISED INDUSTRIES

I have been considering whether in seeking greater efficiency in the nationalised industries we might not make a fuller and more systematic use of MMC reports.

We now have a substantial number of reports, many of them of good quality and containing constructive recommendations. When they contain a formal finding that an industry is in some respect operating against the public interest, Departments no doubt make it their business to ensure that effective remedial action is taken. I am much less certain that we have found the right formula for following up the large number of recommendations which fall short of a formal public interest finding. Some of these may not individually be of enormous weight but taken together, they are likely to have a sizeable impact on efficiency. You will remember the Prime Minister's minute of 26 September last year reflected a similar concern about the effectiveness of follow-up action.

At present we require an industry to produce an initial response about 3-4 months after the report is published and a further statement after 12 months, explaining the action taken and the results achieved. This publicity is useful so far as it goes. But it is all too easy for an industry to get away with a bland statement of good intentions at the first hurdle and a generalised account of progress at the second.

I should like to see some reinforcement. One straightforward way of tackling this problem would be by the systematic use of Value for Money audits. But the industries have proved



unwilling to undertake this voluntarily; and colleagues were reluctant to see powers to direct VFM audits included in the Nationalised Industries Bill when this idea was floated during last summer, although it was agreed that the Government would be willing to include such powers if pressures for them developed during the Bill's passage.

Irrespective of VFM powers, there are a number of lines of action which seem to me worth pursuing. First, Select Committees could be encouraged to take a much closer interest in the MMC reports relating to their industries. The Committees commonly take evidence from the more important of their industries and from sponsor Departments each year; they have access to MMC reports and to the industries' annual reports; and it would be a wholly beneficial development if they were to question the industries on the action that had been taken in response to MMC criticisms. (It would also incidentally help to divert into more constructive channels the Parliamentary pressure for direct C&AG access to the industries which we had to face in the last Parliament and which could easily recur). If you agree, I would hope that John Biffen would be content for you to have an informal word with the Chairman of the Liaison Committee to see whether the Select Committees might be encouraged to move in this direction. Colleagues might also like to make parallel approaches to the Chairmen of their own Select Committees.

Second, I believe the MMC post-audit is a tool that we might use to greater effect. This was specifically referred to by the Prime Minister and we have of course already used it in looking at Post Office mail services in London. Our present policy is that each nationalised industry should have at least one major reference every four years and I do not think we should alter that. But we need to put more effort into following up the recommendations of past enquiries. To do this, we might build on the industries' general dislike of MMC references and, in particular, use the threat of a second reference after four years as an incentive to follow up the first convincingly.

What I have in mind is that the industries should be invited to report to Departments on the results of implementation in the third year after the original report. This would not simply be a further routine statement but a highly specific and, wherever possible, quantified account of improvements actually achieved. This response would be considered by the sponsor Department, DTI and Treasury who would recommend to Ministers either that the industry's response was wholly satisfactory (in which case there would be no need for any



further action in this area - except possibly a congratulatory letter to the Chairman); or that the action taken appeared to fall well short of what was necessary - in which case a full post-audit by the MMC would be needed, whether or not additional to a study of other aspects of the industry's business. If the results did not fall clearly in either of these categories, the industry might, as an intermediate option, be invited to accept a Value for Money check into the implementation of MMC recommendations by their own auditors or consultants (whose report would be shown to the sponsor Department).

The aim of this procedure would be to present the industries with both stick and carrot to encourage them to implement MMC reports and so keep the detailed involvement of officials to a minimum. Thus, the industries might routinely report in the context of Corporate Plan discussions on action taken on past MMC reports, with a separate, detailed and (where possible) quantified report at the third year stage.

Third, the MMC might themselves contribute to better follow-up (and to the procedures described above) if their recommendations were more sharply focused, eg if their reports more frequently contained an action plan and, wherever possible, suggested quantified performance indicators in the area of improvement. The MMC has made some progress along these lines; but more could still be done. This is something which might be discussed with MMC officials.

These suggestions are set out briefly in the attachment to this letter. But to sum up, I am proposing:

- greater involvement by the Select Committees in follow-up to MMC reports;
- a more systematic appraisal in the third year of how industries have responded with the possibility of an additional post-audit, either via the MMC or by other means;
- where possible, MMC reports to be more sharply focused.

... I am copying this letter and enclosure to the Prime Minister, to other members of E(NI), to the Lord Privy Seal and to Sir Robert Armstrong.

NIGEL LAWSON

