

MR TURNBULL

18 April 1985

NATIONALISED INDUSTRIES BILL

Contrary to Peter Walker's belief, the NI Bill does have an important role: it will speed up privatisation (water, although still requiring some primary legislation, could be short-cut as a result by a year, Girobank could be done without any extra legislation); it would ensure that the industries earn (and pay) a proper return on their true investment, including accumulated reserves; and it will give the power to remove board members with appropriate compensation.

These measures will be necessary even after gas is privatised. The Nationalised Industries Chairmen's Group now virtually acquiesce with these proposals and the departure of Dennis Rooke from their ranks will make it even easier! Having done the hard work of achieving a measure of agreement and drafting the Bill, it would be a folly not to capitalise on it when the benefits that the Bill will yield are substantial.

There is no logical inter-relationship between the Gas Bill and the NI Bill, one is an energy measure, the other is Treasury legislation. The NI Bill should complete its passage through the Commons before the Gas Bill could start. If anything has to be displaced in order to accommodate gas, why not consider first the Animal (Scientific) Procedures Bill which will yield only brickbats from scientists and animal lovers alike, and/or Latent Damage, Legal Aid Scotland, Law Reform Parent and Child Scotland or Consumer Goods and Services, any one of which could be deferred for a year.



JOHN REDWOOD

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for (H1)
next week

MR FLESHER

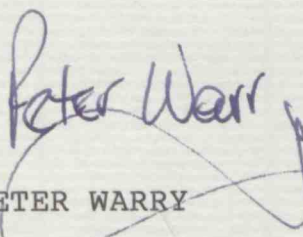
15 April 1985

NATIONALISED INDUSTRIES LEGISLATION

The proposed Bill is important: it gives Government the power to enforce piecemeal privatisation (it could cut a year off the water privatisation timetable by allowing Companies Act subsidiaries to be established); to recover a return on the true investment in these industries; and it also gives the power to remove board members with appropriate compensation.

Surprisingly, the Treasury look set to get agreement from the Nationalised Industry Chairmen's Group (NICG) to these proposals. The only substantive concession they have had to make is to agree that Ministers will not have the power to convert accumulated reserves into debt. (The reserves actually reflect dividends that really should have been paid to Government.) Instead Ministers will only be able to convert reserves into equity - not a bad second-best.

Having virtually secured the agreement of the NICG, it would be a pity if the Bill were displaced from the 1985/6 programme and the momentum lost. There is no logic to British Gas displacing it: on present timing the NI Bill should have completed its passage through the Commons before Gas could start. If a Bill has to be displaced, would it not be better to, for example, forego the Animal (Scientific) Procedures Bill which will only yield brickbats from scientists and animal lovers alike, rather than one more central to the Government's policy?


PETER WARRY

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01 211 6402

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

Pine Murester:

Mr Walker
argues against the
nationalised industries

legislation which at present
has a place in next years
12 April 1985 programme

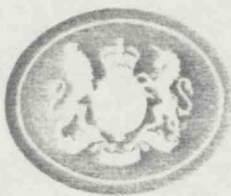
Dear Chief Secretary,

This letter is prompted by your paper, E(NI)(85)3, describing your discussion with the Chairmen about the proposed Nationalised Industry legislation.

It seems to me that over a large part of the field we are now back very close to our starting point. We are reinstating the breakeven requirement. We have to leave the position open on current cost accounting. And we are accepting that Government and Boards should normally proceed by agreement on financial targets and financial structures, with the possibility of over-ride by some Parliamentary procedure. I understand why you have reached these conclusions, but they bring us so near existing practice that I find it hard to see what benefit the proposed Bill will now produce.

I remain of the view that this Bill would be a political mistake. The proposals contain nothing of general application which is essential and in fact tend to drag into statute matters which are usually much better dealt with informally. For example, if we make financial targets a statutory matter, with the possibility of Parliamentary procedure, the odds are that we shall push relations with the industries towards greater formality and come under pressure to use the Parliamentary procedures from both industries and Parliament. By introducing this Bill we will be laying ourselves open to months of debate about the relative powers of Government, Parliament and the Boards. We would be conceding at the outset to Parliament a greater degree of control than it currently enjoys over most nationalised industries. This extra politicisation cannot be conducive to stable, businesslike management of these important industries. And there can be no guarantee that Parliament will in the event be satisfied with the degree of influence that we might envisage at the outset. We risk ending up with both Government and the industries being much more politically constrained than at present and with a requirement, in running the industries, for Parliamentary orders which the business managers are unlikely to welcome.

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Another aspect which concerns me is that your paper and attached Treasury note nowhere recognise the importance of the distinction between profitable and chronically loss-making industries. It is very difficult to legislate uniformly for such a variety of circumstances. A breakeven requirement may be important to British Rail but not to British Gas. And current cost accounting is not much use for the management of loss-making industries.

It may be argued that it is desirable to proceed with the Bill to facilitate our general policies on privatisation. But here too the benefits are marginal. We have publicly stated that our main aims - complete privatisations - will in any case need separate primary legislation. For peripheral partial privatisation, we have yet to resolve with NICG what the scope of the provisions and the related Parliamentary procedures should be. Here too, we risk considerable Parliamentary difficulty and misunderstanding for very little benefit.

On the contrary, the obvious question for our supporters is why we are going to so much trouble over an omnibus Bill on nationalised industries, slanted towards the profitable ones, if our basic policy is privatisation.

So I am reinforced in my view that we should not proceed with this omnibus legislation, even on the basis of your discussions with NICG, but should be ready to deal with the specific, and varying, requirements for each industry as and when need and opportunity arises.

You also suggest a White Paper setting out "an overall coherent policy towards nationalised industries and privatisation". I have grave doubts whether such a White Paper, dealing adequately with such new principles and relationships as are implicit in the proposed legislation (e.g. the concept of the Government as shareholder), can be produced in time, bearing in mind that that too would need to be discussed with the industries. This, to my mind, illustrates the undesirability of proceeding with the Bill.

I am copying this letter to the Prime Minister, other E(NI) colleagues, Willie Whitelaw, John Biffen and to Sir Robert Armstrong.

Yours sincerely

Michael Keidy

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PETER WALKER
(Approved by the Secretary
of State and signed in

12 APR 1985

