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Nationalised Industries Chairmen's Group. (NICG)

NATIONALISED INDUSTRIES

~~March~~ 1980

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CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

D R Norgrove Esq
Private Secretary
10 Downing Street
London
SW1

NBPM.

Dear David,

9 April 1986

DISCUSSIONS WITH NATIONALISED INDUSTRIES' CHAIRMEN'S GROUP (NICG)

To keep colleagues in touch with current discussions that he is having with the NICG, the Chief Secretary has asked me to circulate the following:

(a) Notes of his meetings with the NICG on 28 February and 6 March 1986.

(b) NICG letter of 24 March about Board members' pay.

(c) NICG letter of 27 March 1986 about the Byatt Report on the nationalised industries and accounting for economic costs and changing prices.

(d) Chief Secretary's letter of 3 April 1986 replying to (b) and (c) above.

(e) Chief Secretary's letter of 3 April 1986 about the relationship between the Government and the nationalised industries.

(f) Chief Secretary's letter of 4 April 1986 about nationalised industry Board members' terms of appointment.

2 The Chief Secretary will write to colleagues in due course about the timing of the publication of the Byatt Report and how it should be presented.

I am copying this letter and enclosures to the Private Secretaries of the members of E(NI) and to Michael Stark (Cabinet Office).

Yours,

Jill

JILL RUTTER
Private Secretary

NOTE OF A MEETING HELD IN THE CHIEF SECRETARY'S ROOM

ON FRIDAY, 28 FEBRUARY

Present:

Chief Secretary
Mr Monck
Mr D Moore
Sir Robert Haslam - NICG
Mr P Jones - NICG
Mr Driscoll - NICG

TERMS OF APPOINTMENT OF NATIONALISED INDUSTRY BOARD MEMBERS

The Chief Secretary said that he had completed discussions with Ministerial colleagues about the NICG's note on board appointments. There were two points of general background worth touching on. First, he thought it worth emphasising that Ministers did not have freedom of action in this field. Board members were appointments under the Crown and appointments could only be offered within the terms of the statutes of the individual industries. Existing statutes (with the exception of LRT) did not allow advance promise of compensation to be given and any compensation would have therefore to be on ex gratia basis. Existing statutes (other than NCB and Electricity GB) allowed dismissal provision to be put into instruments of appointment; the statutes in the case of NCB and Electricity GB allowed only for fixed terms of appointment. Second, he wanted to emphasise that while general discussions with the NICG on principles were helpful, individual terms of appointment were a matter for negotiation between sponsor Ministers and individual prospective board members.

2 Sir Robert Haslam said he recognised that without a general Bill, the existing statutory framework of the nationalised industries was to some extent a constraint. Nevertheless the proposals in the NICG's paper were intended to be of general application and to the extent changes were needed to individual industry statutes they should be considered as and when the opportunity arose.

3 On the specific proposals in the NICG's note the Chief Secretary said that the Government had no difficulties in accepting the proposal on the selection and appointment of chairmen (1); and the written statement of terms and conditions of appointment (4). The Government were also content to accept the proposals on declaring offices vacant (7); and resignation (8). But it had to be recognised that these latter two proposals implied tidying up legislation which would have to be considered as and when the opportunity arose.

4 Turning to the selection of board members, the Chief Secretary said that it was the firm view of all his colleagues that Ministers' independence in appointing board members could not be restricted. That said, he would always expect the sponsor Minister to be in close touch with the chairman and in many cases the chairman would make proposals which the Minister would be happy to accept.

5 Sir Robert Haslam said the NICG were not suggesting there was any question of the Minister not making the appointment. Their concern was the behavioural pattern underlying the appointment. Their key concern was that the Chairman had to be in charge of and responsible for his Board. If the Board put forward a candidate the Secretary of State naturally had a right of veto. Equally, the Board would always consider candidates suggested by the Secretary of State. What was at issue was the right of the Secretary of State to appoint someone not acceptable to the Board. He recognised that in practice this was likely to be a very limited area of dispute since the Secretary of State who insisted on appointing a candidate not acceptable to the Board would by then be bound largely to have lost confidence in the chairman. Mr Philip Jones agreed and added that in practice, problems were rarely encountered in this field. If a good rapport existed between Chairman and Minister problems could usually be avoided.

6 The Chief Secretary said that the formal guidance issued by the Government had to take account of the fact that there might be circumstances in which that rapport did not exist. But he agreed that the problem was unlikely to arise in practice. In reality,

if a difference of opinion arose, the chairman ultimately would have to make clear his views and if necessary consider his position. While the closest possible dialogue with the Chairman was clearly a goal of both Government and the NICG, at the end of the day the formal right of the Secretary of State to make appointments to the Board could not be fettered.

7 In discussion of rolling contracts, the Chief Secretary said he and his colleagues understood the concern of the NICG and had discussed the problems at length. They recognised the need to recruit good executive board members. Their concern about evergreen contract remained that giving indefinite terms of appointment potentially weakened accountability and the possibility of regular reviews of performance. They had concluded that they preferred the alternative of rolling contracts, with regular review dates. These were fairly common in the private sector and had, for example, been adopted by BT on privatisation. It would be necessary to discuss the terms in more detail but he hoped that the idea in concept met the concerns of the NICG.

8 Sir Robert Haslam said he believed a move to rolling contracts would be a step forward. But he found it hard to visualize how a board member would behave if his contract had not been rolled forward while he had up to two years left to serve. He pointed out that it was not the case that peformance reviews were not carried out with evergreen contracts. Performance reviews were carried out; it was more the fact that there was no compensation available to nationalised industry board members on loss of office that could lead to some people being on the board for longer than was desirable.

9 In discussion, the Chief Secretary commented that he thought some of the points made by Sir Robert Haslam would apply equally in the case of evergreen contracts. Sir Robert Haslam added that it was not just Ministers that were concerned with the performance of board members; the Chairman was also involved and should be consulted about the performance of individuals. He agreed, however, that the two different approaches boiled down very much to the same thing. It was agreed that more discussion would be needed about the detailed terms involved.

10 At this point the meeting ended and it was agreed to resume discussion at a further meeting to be arranged for the week beginning 3 March.

R Broadbent

R J BROADBENT
Private Secretary

Circulation:

Those present
PS/Chancellor
Sir P Middleton
Mr F E R Butler
Mr Byatt
Mr Kemp
Mr Grimstone
Mr Marr
Mr Lord

1987/11

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NOTE OF MEETING HELD IN THE CHIEF SECRETARY'S ROOM ON THURSDAY 6 MARCH AT 5.30 PM

Present:

Chief Secretary	Mr P Jones NICG
Mr F E R Butler	Sir John Dent NICG
Mr N Monck	Sir Robert Haslam NICG
Mr D J L Moore	Mr J Driscoll NICG
Mr Grimstone	
Mr A M Ellis	

NATIONALISED INDUSTRIES' CHAIRMAN'S GROUP

The meeting resumed the discussions begun on Friday 28 February.

Terms of appointment of Board members

The Chief Secretary said that although, for reasons already discussed, he did not find "evergreen" contracts in the form proposed by the NICG attractive, he was sure that rolling contracts with regular review dates were a considerable step towards meeting the NICG's concerns. A 3-year rolling appointment with regular reviews every 12 months would provide reasonable security of tenure for board members and would alleviate the problem of board members not waiting unduly long to know whether their appointments would be renewed.

Mr Jones welcomed the opportunity to discuss these proposals in further detail. There was, he felt, some misunderstanding of the idea behind "evergreen" contracts. They were in no sense an attempt to obtain greater security of tenure for nationalised industry's boards than existed in the private sector. Rather, they were intended to create realistic terms which reflected the "organic reality" of board membership. Board members regarded membership as a career rather than a short-term posting A mechanistic system of annual review would corrode that. If board members performed below par then the existence of evergreen contracts would not prevent this being dealt with. In addition, under the present arrangements executives promoted to board level had to accept considerable diminution of job security.

Mr Jones suggested that three year rolling contracts would reduce the period of secure tenure from 5 years to 3 years. Annual reviews by the Minister were, he considered, unnecessary as Boards monitored the performance of their members continuously. A two year period of notice of renewal of appointment was not realistic. Boards would not tolerate members working under the cloud of a two year notice period.

It was agreed that the future of rolling contracts had to be considered in the context of provisions for dismissal and compensation and that as the power to pay compensation would require legislation, these issues could not be resolved quickly. Indeed it was not possible to define a basis for ex gratia payments without statutory changes. In this context Mr Jones said that the NICG would like to see the introduction of a statutory requirement that Ministers should explain to Parliament the reasons for dismissal if not for sound business reasons. He accepted however that it would be difficult to define such a provision effectively and that, in the event of controversy, a Minister would inevitably be obliged to explain to the House the circumstances of dismissal.

The Chief Secretary agreed to write to Mr Jones setting out more fully the Government's ideas on appointment procedures.

Pay

Turning to pay, the Chief Secretary said that the Government would continue to be flexible in deciding the salaries of board members, and would pay particular attention to the need to recruit and to retain key individuals. Performance bonuses would be further encouraged provided that they were soundly-based and challenging. He also reported that, in the light of the comments of the NICG on the guidelines on nationalised industry Board membership, Ministers had agreed that they would not need to be consulted before a Board initiated a review of pay by consultants. It would nevertheless remain the case that Ministers determined board pay and there was no question of this principle being breached.

Mr Jones and Sir Robert Haslam both expressed considerable concern at this approach. Flexibility and performance bonus schemes were both helpful but they were no substitute for inadequate remuneration, particularly in the absence of the share option schemes which were available to private sector board members. The "recruitment and retention" criteria led to anomalies within the board and to reverse differentials between some board members and senior management. Sir Robert added that he found the differentials between board members recruited from the private sector and those promoted from within particularly difficult to justify. Both the level and the structure of pay had an adverse effect on the morale of internal promotees. It had never been the case that nationalised industries' board members pay levels had attracted public censure/and increases would not lead to the public outcry that the TSRB's report had. Sir Robert was particularly concerned that a comprehensive review by Hay/MSL to establish ranges for the members of each board was not acceptable to Ministers. There were, he felt, a number of misconceptions about this system. In particular, it simply provided the basis for a more rational pay structure. It did not preclude the scaling down of pay levels to take account of the industries' public sector status.

The Chief Secretary reiterated that it was the firm view of Ministers that the Hay/MSL approach would be based too much on viewing comparability rather than recruitment and retention and would inevitably lead to claims for large general increases which were incompatible with the Government's pay policy. Both he and his colleagues were convinced that flexibility and performance bonuses were the appropriate route and although he agreed that performance bonuses should be treated with understanding and imagination, the Government would need to ensure they were soundly based. He was unable to go further in meeting the NICG's concerns.

Future Arrangements

The Chief Secretary agreed with Mr Jones that the work done by officials on the future arrangements for corporations remaining in public ownership ("the Joint Memorandum") had been useful. In the absence of legislation for nationalised industries as a whole, the general thrust of the Memorandum should be embraced and developed as and when specific legislative opportunities arose. Mr Jones thought that there might be some difference between Ministers and chairmen as to the status of the document. Although drafted in some haste, it was essentially an "implementable" document showing the way ahead, to be applied in the context of individual industries. The NICG had commented in some detail on the Memorandum and had expected similar Ministerial comments. He accepted, however, that the means by which the private sector analogy should be extended, in particular in the area of capital reconstruction, did require legislation and to that extent it was difficult to take the discussion further at such a generalized level. It was agreed that the Chief Secretary should write to the NICG explaining the Government's understanding of the Memorandum's status and significance.

Byatt Report

The Chief Secretary said that Ministerial colleagues were still considering the content of the Byatt report and the timing of its publication and, as he had indicated in his letter to Sir Robert Haslam of 7 February, he would therefore be grateful for the views of the NICG. Mr Jones said that he had been concerned by the Chief Secretary's letter. The NICG needed to discuss the implication of the report with the Government prior to publication and did not feel that publication should be rushed. The report had major ramifications for the nationalised industries: not only could he foresee a number of practical difficulties in implementing it in the context of specific industries; there was also the question of whether it was compatible with the move towards closer alignment with private sector practice. Publishing before the NICG had time to reflect on these issues and discuss them would be unhelpful since they would inevitably be asked to give their reactions on publication.

The Chief Secretary emphasised that the report dealt with appropriate accounting principles and not with the detailed implementation of those principles. Its existence was widely known and he was concerned that publication should not be delayed for too long. It was therefore agreed that it would be useful for Treasury officials to meet the Nationalised Industries Finance Panel to establish whether comments would most appropriately be taken on board prior to publication or discussed in the public debate which would follow publication. The Treasury would set in hand the necessary arrangements.

Adrian Ellis

A M ELLIS

cc PS/Chancellor
PS/Chief Secretary
PS/Sir Peter Middleton
Mr F E R Butler
Mr Monck
Mr Byatt
Mr D J L Moore
Mr Kemp
Mr Grimstone
Mr ~~Marr~~ recd 18/3
Mr Lord

Nationalised Industries' Chairmen's Group

Chairman
T. Philip Jones, C.B.

Hobart House
Grosvenor Place
London SW1X 7AE
01-235 2020

The Rt. Hon. John MacGregor, MP,
Chief Secretary to the Treasury,
Treasury Chambers,
Parliament Street,
LONDON,
SW1P 3AG

CHIEF SECRETARY
TO THE TREASURY
25 MAR
T Mr Grimstone
C CX Sir Peter Middleton
Mr Butler Mr Monck
Mr Byatt Mr Kemp
Mr Moore Mr Marr
Mr A Ellis Mr Lord

1st

24th March, 1986

Dear John,

At the NICG meeting on Friday, 14th March I reported to my colleagues on the outcome of our meetings of 28th February and 6th March.

On three of the four issues which were discussed, we are, of course, still awaiting further developments, (viz. the Joint Memorandum and Board Appointments, on each of which you promised a further letter, and the Byatt Report, where Jim Driscoll has just written to Nick Monck about arrangements for the discussions which you agreed).

As regards Board salaries, I said when we met that I was very disappointed by the Government's response to our proposals. I am bound to tell you that "disappointed" was too mild a comment in the light of my colleagues' reaction. They feel very strongly indeed on this issue and believe that Board Members are being treated in a most unfair and inequitable manner. Chairmen will, of course, do what they can along the "flexibility" line and they will look closely at the scope for performance-related bonus schemes, but these two approaches will not be sufficient to narrow the gap between private sector and public sector salaries, and the performance-related bonus schemes are not an adequate substitute for the right basic pay for the job. The gap which exists between public and private sector Board salaries is untenable both in logic and in equity. It now seems certain to grow even worse. We shall therefore continue to press that Board Members should be properly remunerated.

Yours ever

Philip

Nationalised Industries' Chairmen's Group

Chairman
T. Philip Jones, C.B.

Hobart House
Grosvenor Place
London SW1X 7AE

01-235 2020

27th March 1986

CHIEF SECRETARY
REC - 2 APR 1986
Mr Moore
CX FST MST EST
Sir Peter Middleton
Mr Butler Mr Monck
Mr Byatt Mr Grimstone

Mr Robson
Mr Colman
Mr A. Ellis
Mr Lord

The Rt. Hon. John MacGregor, MP,
Chief Secretary to the Treasury,
Treasury Chambers,
Parliament Street,
LONDON,
SW1P 3AG

Dear John,

I know that you will be as distressed as I am at the recent reports in the "Guardian" and "Financial Times" suggesting that a great row was looming between the Nationalised Industries and the Treasury over the Byatt Report. I do not know where these stories came from. They certainly did not emanate from me, anybody in the Electricity Council or in NICG.

We are, as you know, concerned about the Byatt Report, but it is certainly my wish that any discussions between us are conducted in a civilised manner and not through the columns of the press.

Yours ever

Philip.

/ Mr Stuy

PST
MST
EST
Sir P Middleton
Mr Butler
Mr A. Wilson
Mr Byatt
Mr Moore
Mr Cropper
Mr Houston
Mr Robson
Mr Hyman
Mr A. Ellis
Mr Monck.

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

T Philip Jones, Esq CB
Chairman
Nationalised Industries' Chairmen's Group
Hobart House
Grosvenor Place
London
SW1X 7AE

3rd April 1986

Dear Philip,

Thank you for your letter of 24 March. I note what you say about the strength of your colleagues' feelings about Board salaries. I will not repeat the points that I made at our meeting but no doubt we will return to this subject after an interval. We shall then have some further experience of the progress - which you say Chairmen argue can be made - by way of flexibility and performance-related bonus schemes.

You mentioned the Byatt Report. I have now seen your letter of 27 March. I agree that it is unfortunate that reports of disagreement on the content of the Report have appeared in the press and I am grateful for your assurances.

As far as handling the Report is concerned, I must say that I was surprised to hear that the Chairmen's Group had decided that the meeting between my officials and your Finance Panel, which we agreed on, should be postponed until after your Group meets on 9 May - three months after I sent your predecessor a copy of Volume I of the Report. (Volume II contains supporting material only and copies of this are being sent to Jim Driscoll).

It would be helpful if an exploratory meeting between officials and the Finance Panel could go ahead in the early part of April, as I understand had been arranged. This should be helpful to the NICG as well as to us. But if that is not possible, I think we should plan on publication soon after your Chairmen's Group meeting. The Byatt Report, designed to be an advisory report to the Treasury, and its text is of course now settled. You recognised when we met that the Report would have to be published. The Report proposes that the next step should be discussions with the industries. So I do not think that any long drawn out process of consultation beyond what I had in mind at our meeting is needed before publication. I have already invited any comments you might have about what should be said at the time of publication. You may find it useful in that context to see the attached preface to the Report. I shall be considering further what I might say in the House when the report is published.

I am writing separately on the Joint Memorandum and Board appointments.

Yours sincerely,

John MacGregor

JOHN MacGREGOR

ANNEX B

DRAFT PREFACE TO BYATT REPORT

This Report was commissioned by HM Treasury. It provides advice on ways of developing accounting policies so that accounts of nationalised industries could provide appropriate measures of economic cost. It was prepared by a Group whose members came from outside the Treasury, except for the Chairman, and served in a personal capacity.

2. The Report is likely to be of interest to all those in the accounting profession and elsewhere, as well as in the nationalised industries, who are concerned with accounting for economic costs and changing prices. It is being published as a contribution to this wider debate.

3. The Treasury, in association with the sponsor Departments, will now be discussing the general principles described in the Report with the individual nationalised industries.

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Sir P Middleton
Mr Butler
Mr A Wilson
Mr Byatt
Mr Moore
Mr ...
Mr Houston
Mr Robson
Mr Hyman
Mr A Ellis
Mr Monck.

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

T P Jones Esq CB
Chairman of the Nationalised Industries' Chairmen's Group
and Chairman of the Electricity Council
30 Millbank
London
SW1P 4RD

3rd April 1986

Dear Philip,

NATIONALISED INDUSTRIES'CHAIRMEN'S GROUP

At our meeting on 6 March I said that I would write to you to set out where we now stood on questions about the relationship between the Government and the Nationalised Industries which were discussed last year in preparation for the proposed Bill. I am writing to you separately about appointments.

When I announced on 15 November that the Government had decided not to proceed with general legislation on the nationalised industries in this Parliament, I said that the Government intended to continue to strengthen the industries to the point where they can either be transferred to the private sector, or where necessary, remain as successful businesses within the public sector. That remains our aim. My wording was close to paragraph 2 of the joint memorandum by officials which described the central objective of the proposed legislation.

To recap on the discussions of last year, a number of ideas for those industries remaining in the public sector were examined following the Consultation Document of December 1984. Treasury and NICG officials prepared a joint memorandum, of 29 March 1985, on the common ground established in these discussions and on a way forward. The NICG commented on this in their note of 21 May. You had some discussions with my predecessor but these were not concluded because of the decision not to go ahead with

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the general Bill. As I said in my statement on 15 November, it was agreed that the progress made would be borne closely in mind if further legislative proposals for individual industries were brought forward.

We can look at your comments in your note of 21 May under two heads: the general approach to the relationship between Government and the industries; and your more detailed comments on capital structure and related financial matters.

The General Relationship

In paragraph 3 of your note you argue that the aim should be to base the relationship between Government and the Nationalised Industries as far as possible on that between the Board of a large private sector company and its major institutional shareholders - the "private sector analogy".

As you know from discussions with my predecessor and with me, we have reservations on how far this analogy can usefully be applied. You acknowledge that there are limits to it, though we might not agree on exactly where those limits are. As was noted in the joint memorandum, as long as industries remain in the public sector it is necessary to ensure that the arrangements meet the needs of public accountability and the special circumstances of the nationalised industries. These include Ministers' statutory responsibilities for the industries, their accountability for the exercise of those powers; and the particular responsibilities they have to Parliament; the fact that the Government is regarded as standing behind the industries financially, and that some industries are not profitable; the degree of monopoly power which some of the industries have; the need to protect consumers; and the need to ensure that resources within the public sector generally are used efficiently and earn an adequate rate of return in comparison with that earned in the private sector.

For these reasons, I see the private sector analogy as offering not a general prescription but a useful basis for questioning and analysing our approach to some particular issues and to seeing where improvements might be made.

For example, we are currently looking at ways to improve the arrangements for Board appointments. We agree with you that, subject to amendments of the present statutory powers, there is scope for bringing the arrangements for appointments to Boards more closely in line with those in the private sector.

There are other issues where the private sector analogy is not necessarily relevant, let alone conclusive. For example, investigations by the Monopolies and Mergers Commission into the industries are an important part of the arrangements for public accountability. We need to satisfy Parliament and ourselves that these arrangements are sound and to improve them where necessary. Similarly, irrespective of decisions taken by private sector companies on the form of their accounts, there are good reasons for continuing to have available price-level adjusted information for nationalised industries, and we would not necessarily accept that this question can be settled by the simple application of the private sector analogy.

My conclusion is that we need to look at general questions of this sort one by one. I fully agree that it is often instructive and stimulating to look at what is private sector practice and whether that points to improvements which we can make in the arrangements for the nationalised industries. This seems to me a practical approach which recognises that the private sector analogy can be useful but is not necessarily relevant to all the issues we have to consider.

In addition to general questions applicable to all the industries, there will of course continue to be many questions on particular industries and their relations with Government which can best be pursued by those industries and their own sponsor Departments.

Subject to the general framework of controls and to the agreed objectives for individual industries, we want Boards and managements to be free to use their skills and initiative to continue to improve the performance of their industries and to make them vigorous, efficient and successful businesses.

Capital Structure and Related Financial Questions

Following the decision not to go ahead with the general Bill we agreed that discussion of these questions could best be taken forward by analysis of the possibilities for a particular industry, such as the Post Office. This seems to us the most practical way of testing out the ideas and developing them.

... In the meantime I attach a note by Treasury officials which records some comments on the points made on this section of the NICG's note of 21 May. I must emphasise that these, like the joint memorandum, are Treasury, rather than interdepartmentally agreed, views but I hope that they will help in indicating what would be our initial approach in any discussion between an individual industry, its sponsor Department and the Treasury.

Yours ever,

John MacGregor

JOHN MacGREGOR

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ANNEX

Comments by Treasury Officials on the Sections on Financial Controls in the NICG's Note of 21 May 1985

Capital Structure

1. It was agreed in the joint memorandum of 29 March 1985 by Treasury and NICG officials that it would be for each Board to put forward their proposals for any capital reconstruction although, if necessary, Ministers could set the process moving by inviting them to do so. It is fully accepted that in any particular capital reconstruction the mix of State-owned public equity capital, loan capital, and reserves must be appropriate to the circumstances of that industry.

2. It was agreed that additional debt would be created from reserves only with the specific agreement of the appropriate Board and in order to provide a suitable gearing. We note that the NICG are not yet convinced that it would be equitable to create debt in this way. On the other hand, it would be consistent with the wish to move closer to the capital structure of a private sector company for a Board to have some substantial amount of debt within the capital structure of their industry. That some industries are now nearly free of debt is partly a reflection of the fact that over the years their capital structure has not been amended to take account of inflation, and their improving performance and financial results. If they had had a capital structure closer to that of a successful private sector company they would have been paying dividends, in some cases substantial, and some of their debt would have been renewed rather than paid off. For these reasons we hope that individual industries considering capital reconstruction will not rule out the possibility of creating some debt from reserves. We agree with the NICG's point, in paragraph 7(b) of their note of 21 May, that it would be relevant to look at the gearing of a broadly similar private sector company.

Targets, Dividend Policy & Reserves

3. Private sector companies are subject to a variety of financial disciplines which stimulate them to operate efficiently and earn an adequate return on their capital. For many years now the approach to the nationalised industries has been to apply disciplines, primarily through External Finance Limits (EFLs), investment allocation and financial and performance targets, which are broadly similar in effect to those in the private sector. Capital restructuring, and dividend targets, could help to reinforce those disciplines.

4. This is in line with the PAC's thinking, particularly for those industries generating surplus cash. In the Twentieth Report of 1979-80, it concluded that:

> "there should not be a strong presumption that surpluses in excess of interest commitments should all be retained by an industry".

It thought that:

> "an industry should not be allowed to amass reserves to such an extent that there is a danger of blunting the edge of the discipline that should operate on future investment decisions".

In its Fifteenth Report of 1980-81 the PAC concluded that the creation and maintenance of a suitable capital structure had an important role in promoting financial discipline. It recommended that the creation of liabilities to pay to the Exchequer out of surpluses "a pre-determined sum related to the target set could be seen as equivalent to servicing the publicly-owned 'equity' in the industries; and payments required in this way should be less of a disincentive to the management than clawback arrangements".

5. We agree with the PAC's conclusions. While they are related primarily to cash surplus (i.e. negative EFL) industries, we believe that they are also relevant to profitable nationalised industries which are not fully self-financing. Against this background, our general approach to targets, to dividends, and to reserves is as follows.

6. The present arrangements for EFLs, investment allocations, medium-term financial and performance targets will continue. Even where capital reconstructions are made, such targets will still be necessary for public sector industries not subject to the discipline of a quoted share price and the threat of takeover, and in some cases not facing the full forces of competition.

7. Dividend targets cannot be set in a vacuum and, before deciding on them, it will first be necessary to reach agreement on the targets for return on capital employed, and for cost reductions. These financial and performance targets should then be announced. In part this is necessary to enable Ministers and Boards to explain and defend the dividend target, and the disciplines applying to the industry, to Parliament and to the public. Moreover, without a published financial target, an industry could fail to earn the required return on capital but still meet its dividend target by drawing on prior year reserves. So, although they might in future be given greater emphasis in public statements than financial targets, it is not sufficient to rely on dividend targets alone. Provided they were consistent with financial and performance targets we do not think that the NICG need fear that "double targetry" would be a serious problem.

8. For industries with surplus cash (i.e. under present terminology, negative EFLs) we would normally expect interest plus dividends plus tax to bring all of the pre-tax profit back to the Government. In line with the PAC's conclusions, we would not expect the industries to build up big cash reserves for possible use in the distant future. But we recognise

that, subject to the usual assessment and approval of investment, industries might want to put some cash on deposit in a capital investment reserve when they expected to move in the near future - say, within the 3 years of the target period - to a position where they were less than 100 per cent self-financing. It would also be necessary to consider the arrangements for any industry with cash surpluses more than could appropriately be paid to the Government as dividends. This might be dealt with by paying off existing debt. Or if there were to be a long-term decline in capital employed by an industry there might be a case for considering a capital distribution. In practice these questions would need to be discussed in detail for each industry and with regard to its particular financial circumstances and prospects.

9. The approach would be similar for profitable industries which were not self-financing (i.e. with positive EFLs). Where such an industry had equity we would expect dividends to provide an adequate real return notwithstanding the industry's need to borrow to meet its financing requirements.

EFLs

10. Whatever changes are made in capital structures and in the form of payments, the industries' dividends, deposits and net borrowing will continue to have a direct impact on the Public Sector Borrowing Requirement. It follows that we must continue to take a close interest in these cash flows both in individual years and cumulatively over a period.

11. This is why we want to ensure that the dividends, derived from the 3-year financial targets, are indeed delivered over the 3-year period with any unavoidable shortfall in one year picked up and offset later. In this sense the dividends would be cumulative; though, provided the point of substance is accepted, we agree with the NICG that it is not necessary to use the term "preference share".

12. When new arrangements were introduced we could look again for some better terminology than "negative EFLs", provided that it is understood that the totals and sub-totals of the outturn and the estimated cash inflows to, and outflows from, the Government will be published as now. An important difference will be that for the most part, and perhaps entirely, these inflows will have the more familiar labels of interest and dividends. This may help to make it more readily accepted that there is nothing wrong with successful nationalised industries making such payments to the Government and, moreover, that these payments are in no sense a tax on the consumer.

13. There will be times when industries earn returns higher than was assumed when the target was set. But subject to that we reaffirm that there is no intention of using these new arrangements to raise tax revenues by some additional impost over and above the requirements of the financial and dividend targets. We accept the NICG's point that if exceptionally Ministers were to decide to make such an impost it would be right to seek separate statutory backing, as for the gas levy.

016/1282

Cx
FST
EST
MST
Sir P. Middleton
Mr Butler
Mr Kemp
Mr Monck
Mr Moore
Mr Coleman
Mr Robson
Mr Bristow
Mr Matt
Mr Lord
Mr Byatt - T. Sol.
Mr Grimstone.

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Philip Jones Esq CB
Chairman
Nationalised Industries' Chairmen's Group
30 Millbank
London
SW1P 4RD

4th April 1986

Dear Philip,

NATIONALISED INDUSTRY BOARD MEMBERS: TERMS OF APPOINTMENT

I promised that I would write to you and set out our proposals to improve the present terms of appointments for board members. You have already let us have your ideas ... and I enclose a note which responds in detail to the suggestions that you put to us last year. It follows discussions that I have held with the other Ministers concerned.

As you know, the two main areas where we would like to make progress are rolling-term appointments and dismissal arrangements linked to compensation. Our ability to move forward quickly is however constrained by statutory provisions. For example, instruments of appointment for NCB and Electricity (GB) board members, unlike other industries, must be for a fixed term and cannot include dismissal provisions. The only industry where we can promise in advance to pay compensation to a dismissed board member is LRT. If we had proceeded with general nationalised industry legislation, we would have removed present statutory restrictions and effectively allowed individual terms of appointment to be freely negotiated against the background of whatever non-statutory guidelines seemed appropriate. This would have greatly enhanced flexibility.

The approach that we would like to adopt for rolling-term appointments is set out in the enclosed note and we think that it strikes the right balance between accountability and job security. I acknowledge the importance that you rightly attach to a Chairman's view in these matters and I would envisage the annual review (if that is the period which is adopted) being a joint matter for the Chairman and the Secretary of State, though with the decisions resting with the Secretary of State.

Although for industries other than LRT, we are not able under existing legislation to give enforceable advance assurances about compensation we have recently been advised that we could give guidance as to how we would expect generally to apply compensation arrangements. For example, we could indicate that when deciding whether special circumstances existed that warranted compensation being payable when a member left office, Ministers would generally take into account the circumstances which caused the appointment to be terminated, including whether the termination was at the instigation of the Secretary of State. The method of calculating any such compensation could also be described. Although this necessarily falls short of an absolute assurance, I would hope that it might provide sufficient comfort to allow dismissal and compensation provisions to be negotiated for some future instruments of appointments in advance of legislative change.

The whole area of terms of appointment is extremely complex, and once the NICG has considered our proposals, the best way forward might be for our officials to have detailed discussions about practicalities. We all agree that it is an important topic if we are to recruit, retain, and motivate good-quality board members and I think that we should make improvements if we can.

Yours sincerely

JOHN MacGREGOR

TERMS OF APPOINTMENT OF NATIONALISED INDUSTRY BOARD MEMBERS

Commentary on NICG proposals

1. Selection and Appointment of Chairmen

NICG Proposal

The power to select and appoint Chairmen should remain wholly for the Secretary of State.

Commentary

This represents present practice and it is agreed that this should continue.

2. Selection and Appointment of Board Members

NICG Proposal

Although appointments would formally be for the Secretary of State, the task of searching out and proposing potential members should generally be the responsibility of the Chairman concerned.

Commentary

It is already the usual practice for a Secretary of State to consult the Chairman before appointing new Board members and it is always open to a Chairman to propose an internal candidate (in the case of Executive Members) or the recruitment of an outsider. However, while the Chairman concerned should always be closely involved in appointments to his Board, the prime responsibility for making them must lie with the Secretary of State. To make Chairmen formally responsible for searching out and proposing potential members would detract from this. The Government is not able therefore to accept the NICG's proposal but it would expect sponsor Ministers to keep in close touch with a Chairman when selecting board members.

3. Nature of Appointments

NICG Proposal

Executive board members should be given "evergreen" contracts "automatically extended from day to day". The normal term of such contracts should be three years although the Secretary of State might extend this for particular industries. Board members would thus always have, until retirement, 3 year security of tenure or a corresponding right to compensation. Non-executive board members should have fixed term appointments, normally for three years.

Commentary

The arrangements proposed by the NICG for executive board members would run-on indefinitely unless positive steps were taken to terminate an appointment. The Government considers that this would detract from accountability and that all board appointments need to be regularly reviewed. For example, directors of private sector companies generally have to offer themselves for periodic re-election.

The form of rolling contract in use in British Telecom provides for appointments to be renewed annually. The Government sees some attraction in adopting this procedure and providing for fixed-term appointments of executive board members to be reviewed each year by the Secretary of State in consultation with the Chairman. At each review, the option would be either to roll-on the appointments original period by a further twelve months or to decide that the appointment would expire at the end of its original fixed term period. In most cases the appointment would no doubt be extended. Such a procedure would mean that board members whose appointments were not to be extended beyond the end of their original period would be given much greater notice than has sometimes been customary in the past and this is clearly desirable. Details of appointments made on these terms would of course need to be negotiated between the Secretary of State and the prospective board member at the time of appointment. The Government's present view is that 3-year appointments with 12-monthly reviews might represent best practice. The Government accepts that non-executive board members should have fixed term appointments.

4. **Written Statement of Terms and Conditions of Appointment**

NICG Proposal

Individual board members should have an adequate written account of the terms and conditions on which they hold office.

Commentary

The Government accepts that this is desirable and it is generally done already. A general guidance note for board members has recently been produced.

5. **Power to Dismiss Chairmen**
Power to terminate contracts

NICG Proposal

Provided that overall legislation moves industries closer to the position of large private sector companies, the Secretary of State should, as the ultimate discipline, have a power to dismiss a Chairman for sound business reasons (but not for "what are perceived to be political shortcomings") with an explanation given to Parliament unless the Chairman concerned requests otherwise. Compensation would be payable.

The Secretary of State would have power to terminate the contract of any executive board member, with proper compensation, provided the Chairman had made a formal recommendation to that effect.

Commentary

Existing statutes, other than those for the NCB and the Electricity Supply Industry (GB), already allow instruments of appointment to contain dismissal provisions but this power has not generally been utilised. Ministers do consider that powers should be available that allow board members to be dismissed but they do not intend to incorporate dismissal provisions in instruments of appointment until, following legislation, this can be linked to guaranteed compensation, or it is agreed that the arrangements discussed in paragraph 4 of the covering letter are acceptable

At present, only London Regional Transport statutes allow compensation to be promised in advance and legislation would be needed to extend this to other industries.

The Government does not consider that it would be appropriate formally to fetter Ministers' powers to dismiss executive board members or Chairmen. But, in practice, a Minister would expect to consult a Chairman before dismissing an executive board member, where the proposal to dismiss had not come from the Chairman.

Likewise, Ministers would not consider it appropriate to be bound by statute invariably to explain to Parliament their exercise of a dismissal provision although in practice, of course, it is open to Parliament to request an explanation if a Minister had not volunteered it.

6. Declaring Offices Vacant

NICG Proposal

Present powers should continue. The NICG would not object to some standardisation but see little advantage to be gained from it.

Commentary

The Government agrees with the NICG's comments. Any standardisation of existing powers would require legislation.

7. **Resignations**

NICG Proposal

Any board member may resign by giving six months notice or such shorter period as the Secretary of State after consultation with the Chairman agrees.

Commentary

The Government accepts this proposal but present periods of notice set out in statutes vary and standardisation would require legislation.

8. **Compensation**

NICG Proposal

In determining compensation, "good private sector practice" should be followed.

Commentary

Existing statutes other than LRT do not allow advance assurances of compensation to be made in instruments of appointment. When compensation payments are made under existing arrangements (eg on an ex gratia basis), the Government's standard practice across the public sector is to follow the common law approach (which includes an offset on account of estimated income likely to be gained from alternative employment). There does not seem to be a case for treating nationalised industries differently.

CONFIDENTIAL

MR NORGROVE

19 February 1986

NATIONALISED INDUSTRIES BOARD MEMBERS' TERMS OF APPOINTMENT

The Nationalised Industry Chairmans' Group want board members to have three year 'evergreen' contracts. The Treasury propose a variant of this - a three year rolling contract, which would need replenishing at the end of each year if the three year term was to be maintained.

In principle this should give Ministers the opportunity to let contracts of members with whom they are dissatisfied lapse two years after the initial failure to roll over. In practice, however, it has sometimes proved politically difficult not to renew even a simple fixed term contract of an unsatisfactory Chairman or Member. How much more difficult if Ministers in effect have to give two years notice of such a failure to renew? It would allow the disaffected member to cause endless trouble over the two years, which may well be longer than the Minister himself may expect to remain with the Department.

To counterbalance this disadvantage John MacGregor proposes sensible new dismissal provisions. But whilst these could prove a useful threat, it would need a very exceptional case for the Government to weather the political row that actually dismissing a board member would cause.

The three year rolling contract would be tantamount to giving nationalised industry members permanent tenure. We believe that new dismissal provisions do not represent an adequate trade-off against this disadvantage. We strongly recommend that the rolling contract proposal is not endorsed.

Peter Warry

PETER WARRY

cc BS / JP

CONFIDENTIAL

P 01921

PRIME MINISTER

Nationalised Industry Board Members' Terms of Appointment

FLAG A — E(NI)(86)2

BACKGROUND

When you dined with the Nationalised Industries Chairmen's Group (NIGC) last November one of the issues discussed was terms of appointment for board members. The Chief Secretary should now respond to the NICG's proposals, and is seeking agreement on the line he should take.

MAIN ISSUES

2. The two most important issues concern rolling term appointments and the power of a Secretary of State to dismiss board members.

3. Annex B to the Chief Secretary's paper lists nine proposals by the NICG. Proposals 1, 4, 7, and 8 are regarded by the Treasury as non-controversial and unless any member of the Committee disagrees, can be accepted without discussion.

Rolling Term Appointments

4. The NICG have proposed 'evergreen' contracts. These would be for a 3 year term, which would be continuously and automatically renewed unless a Secretary of State took specific action to end the process. You indicated to the NICG that you were not in favour of this approach.

5. The Chief Secretary proposes instead 3 year contracts reviewed at each anniversary, when a Secretary of State might agree to extend it for a further year. Under this scheme renewal would not be by

default, but would require specific action. Moreover, if a Secretary of State decided not to renew, the appointment would end 2 years after the review rather than 3 years under the NICG proposals. The question of compensation would only arise if, in such circumstances, it was decided to terminate the appointment in less than 2 years.

6. The Chief Secretary's proposal is clearly more attractive from the Government's point of view. Short of conduct meriting dismissal, board members would always have at least 2 years security, which seems not unreasonable and is probably not out of line with practice in the private sector (I understand the Treasury have based their proposal on the practice introduced in the privatised BT). The Chief Secretary seeks authority to discuss the proposal with the NICG, although it would be for sponsoring Ministers to implement it in each industry as appropriate.

Dismissal

7. The Committee concluded in 1984 that it would be desirable to have a power to dismiss board members before the end of a formal term of office. While the NICG originally proposed this, they have since modified their position to the extent that they can accept dismissal providing there are certain safeguards, and, in the case of members, the Chairman recommends it. This does not go far enough, and it seems unlikely that complete agreement can be reached. Nevertheless, the Chief Secretary will need to continue to press the Government's case, perhaps with appropriate understandings with the NICG about how Ministers would operate a power of dismissal.

8. As a quid pro quo Board Members will expect some entitlement to compensation in respect of their un-expired term of office. To agree this in advance would require legislation (see below), but the Chief Secretary proposes that if entitlement to compensation is agreed in principle, the quantum should be fixed on a common law basis, which includes among other matters an offset on account of future income

from employment. The NICG suggest more generous compensation should be payable. The Government's standard practice across the public sector is to follow the common law approach, and there seem no grounds for departing from this.

Legislation

9. Many of the proposals being canvassed would require legislation. With the abandonment of a general Bill on nationalised industries, the only suitable vehicle will be Bills on particular industries as and when they come forward for other reasons. It will therefore not be possible to have complete uniformity, but this is unnecessary in any case. So whatever the outcome of the Committee's discussions and the further negotiations between the Chief Secretary and NICG, it will be for individual Secretaries of State to carry the action forward.

HANDLING

You will wish to ask the Chief Secretary to introduce his paper. Ministers sponsoring nationalised industries will wish to contribute.

CONCLUSION

11. You will wish to reach decisions as set out in paragraph 14 of the Chief Secretary's paper.

JBU

J B UNWIN

19 February 1986
Cabinet Office

British Shipbuilders

J. Graham Day
Chairman & Chief Executive

197 Knightsbridge
London England SW7 1RB
Telephone: 01-581 1393
Telex: 8814702 BSBLDR G

WB PM

jgd/mw/1125/2
25 November 1985

Nationalised Industries Dinner 22 NOV

The Secretary (Invitations),
10 Downing Street,
Whitehall,
London SW1.

Mr Norgrove

Dear Sir/Madam

I would be grateful if you would pass on to the Prime Minister my thanks for a most enjoyable dinner last Friday evening. For my part, I thought it was very pleasant to be able to have such useful and interesting exchanges in a relaxed atmosphere.

Yours sincerely

Graham Day

J. GRAHAM DAY

British Railways Board

Sir Robert Reid, CBE, FCIT
Chairman

NBPM

25.11.85.

R26

Dear Prime Minister,

I just wanted to thank you very much for inviting me to such a delightful and stimulating dinner party at No. 10 on Sunday evening.

It was a most enjoyable occasion, as well as being privileged. I am so glad to be at the Head of a British Industry under such a

Euston Square, PO Box 100, London NW1 2DZ Telephone 01-262 3232 Ext 7000 Telex 299431 BRHQLN quote HQCH

Prime Minister.

Thank you very much for a very pleasant evening.

Yours sincerely

Bob Reid.

Subject
cc Master set - file

JA

10 DOWNING STREET

From the Private Secretary

25 November 1985

Dear Richard,

NATIONALISED INDUSTRIES CHAIRMENS GROUP DINNER

The Prime Minister was most grateful for all the briefing you provided for the dinner she gave on Friday to the Nationalised Industries Chairmen.

The discussion was fairly brief and no doubt ran along lines which are very familiar to you. The atmosphere was friendly and the discussion amicable, except perhaps on the discussion of Board appointments led by Mr Dent. The tone at that point became a little sharper.

Sir Robert Haslam led a discussion of privatisation and Government-nationalised industry relations. He said the National Industry Chairmen did not see it as their role to express a view about the merits of privatisation itself, but they had noted the success of the companies which had been privatised. Some companies however could not be privatised for a while, if ever. There was a need to improve the relationship between Government and the nationalised industries for those that would remain. He pointed to the high proportion of his time he spent as Chairman of the British Steel Corporation discussing its affairs with MPs, Ministers, Civil Servants and the Government machine generally. This could on occasions rise to 80 per cent. He recognised that the relationship could not be wholly like that between the Government and private companies, but he hoped that more could be done to move towards that. A joint memorandum was under discussion with the Treasury.

The discussion which followed amounted to a recitation by some of the Chairmen of what they were doing to prepare themselves for privatisation. However Mr Graham Day said how helpful he had found it to have agreed with the Government objectives and constraints before he had been appointed as Chairman of British Shipbuilders. This had helped his relationship with his Managers and given him greater ability to push changes through.

Mr John Dent gave a long exposition of the changes the Chairmen wanted to see in their terms and conditions, along the lines set out in your briefing. This drew a firm response from the Chancellor, and the Prime Minister said she disliked the proposal for "evergreen" or rolling contracts. Mr. Jones drew attention to the disincentive to

8RW

Managers to join the Boards of nationalised industries: they enjoyed lower security for little increase in pay.

Sir Robert Reid welcomed the Government's trade union legislation. This had helped the nationalised industries in their efforts to achieve higher productivity. The nationalised industries recognised the need for pay restraint. They were concerned about the size of increases in the private sector: these were making it increasingly difficult for the nationalised industries to constrain basic pay. The Prime Minister agreed strongly that pay in the private sector was rising too fast for the health of the economy. She had not agreed to the removal of National Insurance Surcharge in the expectation that the money would be used to increase pay.

Mr Jones expressed great concern about increasing delays in planning inquiries. The Prime Minister and other Ministers agreed, and Mr Baker drew attention to the efforts the Government had been making in this area as well as the constraints on what it could do. It was recognised that there would be no need for any future enquiries into nuclear power stations to repeat the "policy" aspects of the Sizewell inquiry.

Sir Norman Payne spoke on business rates as in the notes attached. The Secretary of State for the Environment outlined in broad terms the proposals the Government had in mind to make in the coming Green Paper.

I am copying this letter to Michael Gilbertson (Trade and Industry), Tony Kuczys (HM Treasury), Robert Gordon (Scottish Office), Chris Snell (Employment), Malcolm McHardy (Trade and Industry), Sarah Straight (Transport), Judith Bennington (Energy) and to Sue Vandervord (Department of Environment).

Yours ever,

David.

(David Norgrove)

Richard Broadbent, Esq.,
HM Treasury.

SPEAKING NOTE FOR PRIME MINISTER'S DINNER

22nd November, 1985

LOCAL AUTHORITY RATES

1. The Chairmen's Group shares the Government's concern about the rates burden, and about the main factor occasioning that rates burden, which is the level of Local Authority spending. We therefore very much welcome the Government's initiative in examining the whole rating question.

Cost of Rates

2. [See table attached] Although our interest sometimes seems to be overlooked, the Corporations collectively bear a particularly heavy rates burden. In 1984/85, our total rate payments came to £865 million. This was equivalent to 2.4% of turnover, and compares with payments amounting to 0.5% of turnover for private sector companies as a whole. Within the Corporations, the rates burden falls particularly heavily on the electricity supply industry, where rates in 1984/85 amounted to £338 million, and on British Gas, where rates came to £133m; but for all of us, it is a heavy charge.

3. The impact also needs to be viewed, of course, in terms of the size of the Corporations concerned. Measured in relation to turnover, ~~three~~ Corporations are particularly badly hit: my own organisation - British Airports Authority - paid rates equivalent to 5.2% of turnover in 1984/85, as against 2.4% across the Corporations as a whole; and ~~the British Waterways Board~~ and the Water Authorities faced charges equivalent ~~to 4.8%~~ and 4.7% of turnover respectively.

4. What worries us still more is the rate at which the rates burden is shooting up. Over the past three years, our total payment has grown from £798 million, to £817 million, and on to £865 million. Last year, the increase was 6%, or £50 million, which represented a very sizeable increase in on-costs which absorb all too much of our efficiency gains.

Scotland

5. As you will expect, Prime Minister, our complaints about the English and Welsh rating situation become groans of anguish when we look north across the Border. The Scottish Corporations, and those UK Corporations with facilities in Scotland are gravely concerned about the way things have been moving there, especially - but not solely - because of the recent rate revaluations there. The Chairmen concerned will doubtless raise their own problems, but I might quote two examples - neither of them drawn from BAA's own sad experiences.

6. The first concerns the two Scottish Electricity Boards. The 1985 change increased their rate valuations by 21%, and top of that, their rate poundages went up by 14% on average; so their total rate payments went up by no less than 35% last year. Taken together, the two Boards now account for 23% of all industrial rateable values in Scotland. The second concerns the Civil Aviation Authority's Scottish Airports. Although they were already highly valued for rating purposes, the 1985 revaluation increased their

/...

rateable value by nearly 85%. In 1984/85, John Dent saw no less than 30% of the turnover from his 8 aerodromes going in rates alone. By contrast, Municipal Airports in England and Wales pay only 7% of their traffic income in rent and rates combined. To put the same point in a way nearer the heart of both Nigel Lawson and Kenneth Younger, the Scottish Office recognises that these aerodromes provide one of the social services necessary to maintain the quality of life in the Highlands and Islands, and in 1984/85 it paid out £3.4 million by way of grant to sustain them, only to find one third of that grant then taken away by the Local Authorities by way of rates.

Anomalies in Valuations

7. The Scots, of course, are not alone in worrying about valuation arrangements. Almost all the Corporations are now valued, at least in part, on the basis of some kind of formula; and while this suits some Corporations, this approach creates severe difficulties for others. I won't bore you with details on an occasion such as this; but I should mention that the Group's Finance Members are looking at this aspect, and I hope that Kenneth Baker will give us an opportunity to discuss the outcome with his offficials in due course.

Local Authority Spending

8. Finally, let me go back to a point I made at the beginning. Although the rating system introduces its own anomalies, our worries about the level of the rate burden necessarily mirrors an underlying anxiety about the level of local authority spending which gives rise to these charges. We wish you well in your efforts to keep that underlying cause under control.

9. In this connection, however, we have one point particularly in mind. Because of the nature of their industrial circumstances, many of the Corporations find themselves operating large facilities in particular localities; and as a result, they find themselves paying a very high proportion of the total rate income of the local authorities concerned: to give only two examples, British Steel pays nearly 45% of the total local authority rate income at Scunthorpe and Port Talbot. The Corporations have, however, no say whatsoever in the spending plans of the local authorities so favoured; and as always, such a lack of accountability positively encourages a certain excess of liberality on the part of the councillors concerned. "Spending money like drunken sailors" is the phrase that comes easiest to mind.

10. We have, however, as you will appreciate, Prime Minister,one unhappy, last-resort defence. Like small businesses in Lambeth, if particular local authorities squeeze us too hard, there comes a time when we can "up and move". I won't pursue that point in any detail, because that is a matter for the Chairmen concerned; but there have certainly been occasions when rate burdens have been a factor in closure decisions.

11. The Chairmen's Group recently drew many of these problems to the Department of Environment's attention and we hope that Kenneth Baker and his officials will give us an opportunity to comment further on them, and on the Government's proposed solutions, as and when they appear.

010

Nationalised Industries' Chairmen's Group

Chairman

Sir Robert Haslam

Hobart House
Grosvenor Place
London SW1X 7AE

01-235 2020

25th November 1985

The Rt. Hon. Margaret Thatcher, MP
Prime Minister,
10 Downing Street,
London SW1.

Prime Minister 2
(DT may like to see?)
DRW
25/11.

MT

Dear Prime Minister,

Just a note to thank you and your Ministers most sincerely on behalf of the whole NICG team for a very pleasant and rewarding dinner on Friday evening. We were most appreciative of your willingness to entertain us at such an abnormally busy time, when you clearly must have been pre-occupied with so many immediate weighty problems.

All my colleagues felt we had a very good hearing and were most appreciative of the way you and your Ministers listened and responded to our views. We were very pleased that Mr. Thatcher was able to join us and we welcomed his understanding and helpful reactions to our discussions.

Finally, I hope you were reassured that we are all very supportive of the policies you and your Ministers are pursuing and that any observations we made were only designed to improve further the effectiveness and contributions of our respective industries.

Yours sincerely

Bob Haslam

PRIME MINISTER

NATIONALISED INDUSTRIES' CHAIRMEN'S GROUP DINNER

You are giving dinner tomorrow night to the Nationalised Industries' Chairmen's Group at 1900 for 1915 hours, dress lounge suit. The Chairmen know that the dinner is to finish promptly at 1000 hours.

The list of guests and seating plan are immediately below. Briefing is also attached, together with a note by John Redwood about the overall position of the nationalised industries.

I assume the formal discussion will start with dessert.

Sir Robert Haslam will lead off with a discussion of privatisation and the arrangements for corporations still in public ownership. Sir Ronald Dearing will also speak on this. They are likely to say in essence that they do not oppose privatisation. I have warned them that so temporizing an approach is likely to get a frosty reception. Sir Robert Haslam is himself in favour of privatisation, but feels restrained by some members who are not. You could point to the success of the companies which have been privatised and that the Government is determined to press ahead with the programme. Indeed the Nationalised Industries' Chairmen cannot easily complain both about the restrictions placed upon them by Government and about the prospect of privatisation.

Mr. John Dent will then speak about Board appointments and pay. The point here is that the range of increases for individual Board members has been from 0 - 25 per cent or more each year in the past three years. The Government is flexible about Nationalised Industry Board pay and seeks to tailor salaries to individual circumstances. But they cannot expect large general increases in overall Board pay.

Sir Robert Reid and Dr. Bright will then speak about industrial relations and wages. They are likely to say that they aim at reaching agreement with employees, but they have shown their readiness to fight it out if necessary. They will point to the fact that their pay settlements have been lower than those in the private sector in the past three years and that to continue this trend is becoming increasingly difficult. You could point to the speeches made at the CBI Conference. The Chairmen are themselves a major force in industry and they should take every opportunity to argue for lower pay settlements throughout the economy.

Mr. Jones will speak about delays in planning inquiries. (The Chairmen have written to Mr. Baker.) You can but agree.

Finally, Sir Norman Payne will speak about the rate burden. The Chairmen feel people ignore the rates paid by nationalised industries. Apparently BSC pays half the rate income of Scunthorpe and Port Talbot. Again you can agree and say that the Government intends to act on this.

Generally, all these subjects are ones on which there is continuing correspondence between the Chairmen, the Treasury and other departments. Although the Chief Secretary cannot be present, the Chancellor will be up to date on the state of discussions.

D K Hamilton

(Duty Clerk)

pp David Norgrove
21 November 1985

BEMBDS

LIST OF GUESTS ATTENDING THE WORKING DINNER TO BE GIVEN BY THE PRIME MINISTER FOR THE NATIONALISED INDUSTRIES' CHAIRMEN'S GROUP ON FRIDAY, 22 NOVEMBER 1985 AT 7.00 PM FOR 7.15 PM LOUNGE SUIT

The Prime Minister	
Rt. Hon. Nigel Lawson, MP	
Rt. Hon. George Younger, MP	
Rt. Hon. Nicholas Ridley, MP	
Rt. Hon. Lord Young of Graffham	
Rt. Hon. Kenneth Baker, MP	
The Hon. Peter Morrison, MP	
Mr. David Hunt, MP	
Sir Robert Haslam	Chairman, British Steel Corporation. Chairman, NICG
Mr. T.P. Jones	Chairman, Electricity Council Chairman-Elect, NICG
Mr. John Dent	Chairman, Civil Aviation Authority. Past Chairman NICG
Mr. A.M. Allen	Chairman, UK Atomic Energy Authority
Dr. Keith Bright	Chairman, London Regional Transport
Mr. Robert Brook	Chairman, National Bus Company
The Lord Croham	Chairman, British National Oil Corporation
Mr. Graham Day	Chairman, British Shipbuilders
Sir Ronald Dearing	Chairman, Post Office
Mr. Len Hill	Chairman, Water Authorities' Association
Mr. Michael Joughin	Chairman, North of Scotland Hydro-Electrity Board
Mr. I.K. MacGregor	Chairman, National Coal Board
Sir Norman Payne	Chairman, British Airports Authority
Sir Robert Reid	Chairman, British Railways Board
Sir Leslie Young	Chairman, British Waterways Board
Mr. J. Driscoll	Director, Nationalised Industries' Chairmen's Group
Mr. Nigel Wicks	
Mr. David Norgrove	

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RESTRICTED

CC BF/up
CC B/G

Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
Private Secretary
10 Downing Street
London
SW1

21 November 1985

Dear David,

NICG DINNER WITH PRIME MINISTER, 22 NOVEMBER

We have learned from Jim Driscoll that although the NICG will not want to go into detail on their ideas for Board appointments they will very probably want to refer to some of the main features. As the present brief deals with appointments on the assumption that there will not be substantive discussion, I now attach a supplementary piece. As is made clear, the comments in it are provisional since Ministers have yet to consider the proposals.

You might also like to know that NICG have it in mind that their main spokesmen should be:

(i) Haslam and Dearing (PO) on privatisation and arrangements for Corporations still in public ownership.

(ii) Dent (CAA) on Board appointments and, very briefly, Board pay.

(iii) Reid (BR) and Bright (LRT) on wages, industrial relations, and employment policies.

(iv) Jones (Electricity) on major planning enquiries.

(v) Payne (BAA) on local authority rates.

I am copying this letter to John Mogg (Trade and Industry), Geoffrey Dart (Energy), Robin Young (Environment), John Graham (Scottish Office), Robert Smith (Transport) and Stewart Lane (Employment).

Yours

Paul Pegler

~~R J BROADBENT~~
PP Private Secretary

RESTRICTED

NATIONALISED INDUSTRY BOARD APPOINTMENTS

The NICG's proposals were written on the assumption that they could be given effect in a general NI Bill. Both Departments and the NICG now need to look again to see whether any changes might be justified within present powers, and possibly whether any might be implemented in legislation for individual industries. Ministers have not yet considered these questions and any discussion now can only be provisional.

2. The key question is whether the NICG proposals would unduly constrain Ministers' powers of appointment and dismissal which are one of the main ways of controlling and influencing the Boards. The main points in the proposals, and some provisional comments on them, are as follows.

Selection & Appointment of Board Members

3. NICG accept that appointments would formally be for the Secretary of State, but they recommend that the task of searching out and proposing potential members should generally be the responsibility of the Chairmen.

4. In practice it is already usual for a Chairman either to propose an internal candidate or the recruitment of an outsider as an Executive member. It would be very unusual for a Chairman not to be consulted on the appointment of any member. But the prime responsibility for making the appointments must be seen to lie with the Secretary of State. No legislation is needed for consultations.

Rolling Contracts

5. The NICG want to move from the present practice of appointments for a specified period to 3-year rolling -

or "evergreen" - contracts. This would give Executive Board members, until retirement, 3-year security of tenure or a corresponding right to compensation.

6. At present compensation arrangements are generally non-contractual. So rolling contracts with provisions for compensation would require legislation.

7. If there were to be rolling contracts - and the merits need further study - it would be essential that the Secretary of State was not constrained in his ability to dismiss a member, with compensation. Otherwise it could take 3 years to get rid of a poor performer.

Dismissals

8. The NICG want the Secretary of State to have powers to dismiss a Chairman, for business and not political reasons, and with the reasons given to Parliament unless the Chairman wishes otherwise. They agree that the Secretary of State should have power to terminate the contract of any Board member, with compensation, provided the Chairman has so recommended. These changes would require legislation.

9. At official level Departments question whether a Secretary of State should be bound to give the reasons for dismissal of a Chairman. It is doubtful whether there is a meaningful distinction to be made between business and political reasons for a dismissal. If a Chairman were half-hearted in carrying out Government objectives for his industry it might be arguable whether that was for business or political reasons.

10. It would not seem acceptable for the Secretary of State's powers to dismiss Board members to depend on the Chairman taking the initiative; though it would be most unusual if the dismissal were not a matter for consultation.

Compensation

11. The NICG want "good private sector practice" to be followed.

12. Contractual entitlement to compensation would require legislation. Under present arrangements compensation payments are made non-contractually and the Government's standard practice is to follow Court of Law approach which provides for offset on account of any alternative income.

PRIME MINISTER 21 November 1985

MEETING WITH NATIONALISED INDUSTRY CHAIRMEN

You may like some bull points to encourage these doughty guardians of public assets:

- Privatisation can be good for them. Several Chairmen now see the benefits of freedom from Treasury control, freedom from negotiation with departments, freedom to set their own salary levels, freedom to buy shares in the business, freedom to move into new business areas or out of old ones without political intervention. More need to be persuaded.

- The Nationalised Industries Bill has been dropped. They will see this as a victory for their well-run (and unpleasant) campaign against it.

- Capital spending has been good - £7,309 million in 1983-84; £6,244 million in 1984-85. (NCB fell short because of strike, and British Telecom stopped counting following privatisation in November 1984.)

- Certain major projects like rail electrification, the fourth London airport, and the refurbishment of the tube system, have been approved or are continuing.

- There have been noticeable improvements in performance at BSC, British Airways and several others.

- Graham Day, who has done a splendid job at British Shipbuilders, shows that you can privatise loss-makers and tackle a declining industry vigorously.

However, you may like to remember just how disappointing the overall financial results of the public industries have been. In March 1980, the new Government set out its hope for a big reduction in losses and more self-financing:

Total external finance for Nationalised Industries:

					£m
	1979-80	**1980-81**	**1981-82**	**1982-83**	**1983-84**
Forecast (1979 prices)	2,300	1,450	700	200	-400
Out-turn (cash)	2,999	3,221	3,553	2,143	

Even allowing for the inclusion of Water, inflation, and for privatisation not envisaged in 1979-80, there are big overruns in these figures.

In March 1982, large upward revisions were made in the forecasts. The White Paper said this was "largely because of reductions in revenue resulting from lower demand". These changes brought the figures for 1982-83 and 1983-84 much more into line with reality, but were deeply disappointing. The idea that it was all due to "reductions in demand" was suspect. The economy grew steadily from early 1981. The problem lay in cost increases and a slowness to adapt to new market conditions, particularly at Coal, Rail and Steel.

By February 1984, the Government had returned to optimistic budgeting:

__Total external finance for Nationalised Industries__:

				£m
	1983-84	1984-85	1985-86	1986-87
__Forecast__ (cash)	2,500	1,881	1,145	91
__Estimated Out-turn__ (cash)	2,285	3,211	2,250	

Despite regular efforts to put the industries __overall__ on a self-financing basis, the Government has never succeeded in getting total external finance below £2,000 million per annum.

I believe it would be a mistake to quote inflammatory figures like these. The real picture is more complicated.

Between April 1979 and March 1986, total external finance will be a little under £20 billion. This compares with the initial plan in March 1980 of just over £4 billion in total from April 1979 to March 1984, with no extra money thereafter. I have not corrected for changes in the industries included in the numbers, which would improve the picture a little. It excludes £1.5 billion of money for BL, with almost as much again as government guarantees of other borrowings.

The main villains of the piece have been Coal, Rail, Cars and Steel. The evidence to date seems to show that large public conglomerates rarely work as a whole. Jobs have been lost at an alarming rate. Only by splitting them up and setting up more dynamic businesses under separate management - and preferably with private capital - can you make real progress. The stark choice presented of total closure or soldiering on as we are is never the true business choice. Keeping all in the public sector guarantees political involvement in the redundancies and closures that all too often follow.

To deliver on these targets, the separate sale of British Rail Engineering; Open-Cast Coalmining; Truck, Bus, 4-Wheel Drive at BL; and the "long legs" of British Steel, are important. They will bring money into the remaining businesses, and free talent and capital for the ones being sold. Without such a process, the Nationalised Industries programme may continue to let you down.

Do you wish to have to cut pensioner benefits or put up prescription charges because nationalised industries have failed to deliver again? For that will be the real choice.

John Redwood

JOHN REDWOOD

1. Mr. Norgrove

2. PRIME MINISTER

MO

DINNER FOR THE NATIONALISED INDUSTRIES' CHAIRMEN'S GROUP
FRIDAY, 22 NOVEMBER

I attach the list of guests attending the working dinner on Friday together with a draft seating plan.

For the most part we have aimed to group people by subjects, boring as that may be, but taking account of the fact that they have arrangements about who is going to lead the discussion on what. The list is below:

Haslam Dearing	Privatisation and NI-Government relations
Dent	Board appointments
Reid Bright	Wages and industrial relations
Jones	Planning enquiries
Payne	Rates

Agree seating plan?

DRN

for SUE GOODCHILD

20 November 1985

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CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
Private Secretary
10 Downing Street
London
SW1

20 November 1985

Dear David

NICG DINNER WITH PRIME MINISTER 22 NOVEMBER

... I attach a copy of the central brief which we have prepared for the Nationalised Industries' Chairmen's Group dinner with the Prime Minister on 22 November. It covers the topics listed in Sir Robert Haslam's letter to the Prime Minister dated 12 November.

Sponsor Departments will be briefing their Ministers on matters specific to individual industries. I would be grateful if copies of these briefs could be sent to us in due course and I am presuming that sponsor Departments will alert you direct to any major points that individual Chairmen might raise with the Prime Minister. If you feel that the Prime Minister requires any further general briefing material, I would be grateful if you would let me know as soon as possible.

I am copying this letter to John Mogg (Trade and Industry), Geoffrey Dart (Energy), Robin Young (Environment), John Graham (Scottish Office), Robert Smith (Transport and Stewart Lane (Employment).

Yours ever
Richard

RICHARD BROADBENT
Private Secretary

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10 DOWNING STREET

SPEAKING ORDER

Sir Robert Haslam) Sir Ronald Dearing)	Privatisation and NI-Government relations
Mr. John Dent	Board appointments
Sir Robert Reid) Dr. Keith Bright)	Wages and industrial relations
Mr. T.P. Jones	Planning enquiries
Sir Norman Payne	Rates

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N[illegible] DINNER WITH PRIME MINISTER 22 NOVEMBER

Agenda

1. Government - Nationalised Industry Relations

   - Privatisation and arrangements for corporations still in public ownership

   - Arrangements for board appointments

2. Wages, Industrial Relations, and Employment Policies

3. Major Planning Inquiries*

4. Local Authority Rates*

Briefing on the above topics and a note* of those attending from the Nationalised Industries' Chairmen's Group is attached.

~~* to follow~~

1. GOVERNMENT-NATIONALISED INDUSTRY RELATIONS

(a) Privatisation

(b) Nationalised Industry Legislation
  (i) background
  (ii) private sector analogy

(c) Board Pay and Appointments

(d) Miscellaneous
  (i) Accounting principles
  (ii) MMC references
  (iii) Current financial position of industries

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1(**Privatisation**

Line to Take

1. The Government is committed to increasing nationalised industries' effectiveness and commercial vitality so that they can either be transferred to the private sector or, where necessary, remain as successful businesses within the public sector.

2. The programme for the remainder of this Parliament is broadly mapped out (British Airways, British Gas, British Airports Authority, National Bus Company, Royal Ordnance, Rolls Royce) but not too soon to start thinking of plans for next Parliament. Suggestions welcome, including privatisation of parts of industries.

3. Form of privatisation important: where possible aim to maximise efficiency through competition or other means, increase wider share ownership, and encourage employee involvement.

Background

1. Twelve major businesses privatised since 1979, transferring 400,000 employees to private sector. Proceeds £7 billion.

2. Expected timetable of future sales is as follows:

National Bus Company	series of sales 1986 onwards
British Airways	As early as possible in 1986-87
Royal Ordnance	Summer 1986
British Gas	Autumn 1986
British Airports Authority	First half 1987
Rolls Royce	Spring-early Summer 1987
Water	Autumn 1987 onwards (depending on E(A) decisions)

Cannot guarantee Boards a particular place in the timetable. Matters taken into account include private sector offers and Government Broker's queue, need to stop sales interfering with each other, readiness of companies for privatisation, and desirable phasing of receipts in line with overall economic strategy.

3. Stimulus of privatisation and related policies producing significant efficiency and financial gains within public sector. For example, nationalised industry external finance in 1979-80 was £2,600 million: expected external finance in 1986-87 is £480 million despite privatisation of profitable industries.

4. NICG has no formal position on privatisation and sees it as a matter to be dealt with at individual industry level. Individual Chairmen (all appointed or re-appointed since 1979) generally sympathetic to concept not least because of freedom it gives them from public sector constraints.

1(b) **Nationalised Industry Legislation**

Line to Take

1. The Government has decided against any general nationalised industry legislation in this Parliament because of progress that is being made on the privatisation programme and other legislative priorities.

2. The Government recognises that discussions between the then Chief Secretary and the NICG made some useful progress. But in the absence of a general Bill further progress, in seeing whether some of the approaches discussed can be adopted, has to be made piecemeal on individual industries. (No specific proposals yet.)

3. Until industries are privatised, and where they cannot be, the aim is for them to operate as successful businesses within the public sector. But there are limits on how far the relationship can be based on the analogy between a private sector company and a major institutional shareholder. The present financial framework - targets, EFLs and performance aims - has to continue, and in general seems to be working well. Important that the industries should maintain very real progress of recent years. Need continuing improvements in productivity, efficiency and performance.

Background

1. The Government announced on 9 May that there would not be general nationalised industry legislation in 1985-86 Session (primarily to make room for gas legislation) and the Chief Secretary has just announced on 15 November that no general legislation now expected this Parliament. Proposals will now be considered on an individual industry basis.

2. General nationalised industry legislation originally planned for 1984-85 Session but withdrawn after public row with NICG. Revised legislative proposals were published on 20 December 1984 and covered:

(i) balance sheet restructuring

(ii) statutory financial targets

(iii) consolidation and simplification of borrowing powers

(iv) updating of accounts, reports and audit powers

(v) privatisation of parts of an industry

(vi) revised terms of appointment for board members (eg that would allow dismissal with compensation being paid)

The revised proposals were publicly opposed by the industries who argued that powers would extend Government control and diminish business incentives.

3. Once the NICG started discussing the proposls with the Treasury (who co-ordinated the excercise on behalf of sponsor Departments), the industries' opposition became more muted as they began to realise that the proposals (particularly those relating to balance sheet restructuring) would allow the industries to move closer to the position of large private sector companies albeit with the Government as the controlling shareholder. The increased freedom this would give the industries was welcome to them and, in recompense, they were prepared to concede that the ultimate sanction available to Ministers should be a power to dismiss a Chairman (with compensation payable) if a Board's performance proved unsatisfactory.

4. Although the private sector analogy has some attractions, it cannot be pushed too far. As long as industries remain in the public sector, the Government must have regard to the needs of public accountability; to the degree of monopoly power possessed by some nationalised industries; to the fact that the Government is perceived as standing behind industries financially (and some are currently unprofitable); and the need to ensure resources within public sector generally earn adequate rate of return compared to private sector etc. Although NICG officials accepted these caveats at the time of the discussions, the Chairmen now understandably prefer to stress the freedom and disregard the constraints. It is not clear how far the Government's and the industries' position can be reconciled on this.

5. Because the NICG feel that discussions on the general Bill made useful progress as far as they were concerned, they are keen to get

the Government hooked on to the "private sector analogy" approach and might like to see a general statement of intent issued. For reasons set out in paragraph 4, this is not a good idea. We are not willing to accept a weakening of controls. Rather than have a general statement of intent and theory, the ideas discussed in the summer are best put to the test by further work on how they might be applied in practice to a particular industry eg the Post Office.

1(c) **Board pay and appointments**

Line to take

1. The Government is flexible on nationalised industry board pay and seeks to tailor salaries to individual circumstances. But large general increases in overall Board pay would attract adverse publicity and could impact on pay movements elsewhere. Would be damaging to approach to pay next year in particular - NB the CBI's stance. The room for manoeuvre is never very great.

2. Board pay removed from TSRB ambit from 1981 to allow greater individual flexibility. Although the 1985 TSRB settlement was high, Chairmen cannot have it both ways (ie individual flexibility and high general increases).

3. The Government is keen to encourage soundly-based performance pay schemes to provide bonuses on top of basic pay to reward good performance. Industries slow in bringing forward proposals. So far schemes for BSC, PO and BAA.

4. Terms of appointment largely covered by statute. Without primary legislation, not much scope for increased flexibility. But will look at the NICG's proposals.

Background

1. NICG deeply concerned about board pay and Sir Robert Haslam has recently written to the Chancellor on the following lines:

(i) Government treating Civil Servants more generously

(ii) Salary gap between boards and private sector companies is widening

(iii) Internal anomalies (eg reverse differentials within industries increasing

(iv) Jump in salaries on privatisation embarrassing to all concerned.

NICG say that they appreciate Ministers' sensitivity about large public sector increases and would like a covert phased programme of implementation spread over several years. A meeting has been arranged for next week between the Chief Secretary and the NICG to discuss Board pay. Haslam is not looking for a substantive discussion at the dinner.

2. The pattern of increases from board pay reviews in recent years is as follows:

	1983	**1984**	**1985 to date**
Average increase for individuals	7.5%	8.1%	9.1%
Range of increases	0-34%	0-25%	0-26%

These are more generous than other public sector increases and the ranges indicate the flexibility that is being applied. However, other than for a few individuals the gap is widening between the pay of board members and private sector salaries. In 1984-85 public trading sector earnings overall increased by $7\frac{1}{4}$ per cent compared with $8\frac{1}{2}$ per cent in the private sector; private sector directors and senior staff salaries rose by 7-12 per cent with the higher increases going to the more senior posts. The problem is that the pay of nationalised industry boards cannot be increased without risking unacceptable consequences elsewhere in the economy.

3. The position is likely to continue to be unsatisfactory as far as the NICG are concerned because the Government and NICG's objectives are largely irreconcilable. Privatisation progressively reducing scale of problems.

4. The NICG had put forward proposals for the general Bill to provide for new arrangements for terms of appointments. Departments now considering what, if any, changes are necessary within existing statutes. The Chief Secretary will be in touch with the NICG on this.

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1(d) **Miscellaneous**

(i) **Accounting Principles**

Line to Take

1. The Government believes it is important that nationalised industries continue to produce accounts which reflect price level changes and the true cost of resources. This is necessary if industries are properly to discharge their public accountability.

2. Appreciate move away from price-level adjusted accounts in private sector though reasons for this not necessarily relevant to nationalised industries. Form in which nationalised industries produce accounts for 1986-87 will need to be considered in due course.

3. Work of Treasury Chaired group (the "Byatt Group") on nationalised industry accounting has involved technical analysis of relevant questions. It does not pre-empt any future policy discussions or decisions.

Background

1. All nationalised industries produce main or supplementary current cost accounts (CCA). We believe this to be particularly important as CCA alone reveals what activities truly cost through adjusting for inflation. The nationalised industries are capital intensive and many assets have long lives. Unless the value of these assets is considered at current price levels, inadequate provision will be made for their replacement. Misleadingly high profit figures will also result. Financial targets for the profitable industries are also normally set on a current cost basis (endorsed by PAC).

2. Although many of the nationalised industries are strong supporters of CCA for these reasons, some have indicated they would not wish to produce such accounts if the present retreat from inflation adjusted

accounts continues in the private sector. This retreat has led to the relevant inflation standard (SSAP 16) being made non-mandatory and it is not clear how matters will develop.

3. There is also suspicion in some industries over the work of an Advisory Group, chaired by a Treasury official (Mr Byatt), which is producing a report on how nationalised industry accounting might be developed to provide an appropriate measure of economic cost. This suspicion is misplaced. The Group's membership includes eminent members of the accountancy profession and senior nationalised industry personnel, all serving on a <u>personal</u> basis. The report is nearly complete and endorses the importance of price adjusted information and is a technical document, intended as a contribution to the wider debate. It does not deal with how its ideas might be applied to individual industries. The Treasury's intention is to publish the report in the New Year although this has not yet been agreed collectively (and officials in some Departments still have some doubts).

1 **Miscellaneous**

(ii) **MMC References**

Line to Take

1. Government believe that MMC reports on nationalised industry efficiency are an important and necessary contribution to discharging the industries' public and Parliamentary accountability. The MMC has already done much to identify possible improvements many of which the industries, to their credit, have implemented.

2. Without effective MMC investigations, Parliamentary pressure for other forms of efficiency investigations eg involving direct access by the National Audit Office to the industries would undoubtedly grow.

Background

1. Twenty nationalised industry references to the MMC have so far been made under the Competition Act 1980, and 16 reports published. Earlier this year, Ministers agreed that arrangements for following up MMC reports should be strengthened:

(i) industries to report to Sponsor Departments 3 years after MMC report publication on action taken (at present 3 and 12 month responses only).

(ii) progress in implementing MMC recommendations to be routinely examined in Corporate Plan discussions

(iii) industries to put forward in 12 months report, specific targets against which achievement can be measured at 3 year stage.

2. These proposals have been put to the NICG. We believe they will further enhance credibility of MMC investigations and strengthen industries' accountability. The NICG have not yet responded but we

have heard informally that some Chairmen consider that the proposals are an unwarranted intrusion into their internal affairs for which there is no private sector parallel. We disagree: such strengthening is in the industries' own interests and necessary for corporations which are publicly accountable.

I) Miscellaneous

(iii) Current Financial Position of Industries

Tables are attached showing:

(A) NICG member industries, their Chairmen, 1986-87 EFL, turnover, profit and number of employees

(B) Outturn by industry of this year's Investment and Financing Review.

All nationalised industries are members of the NICG plus the Atomic Energy Authority. The Electricity Supply Industry (England and Wales) is represented by the Chairman of the Electricity Council (Mr Jones) and the 10 English and Welsh Water Authorities by the Chairman of the Water Authorities' Association (Mr Hill, who is also Chairman of the South West Water Authority).

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TABLE A

INDUSTRY	CHAIRMAN	1986-87 EFL £ million	1984-85 TURNOVER £ million	1984-85 CURRENT COST OPERATING PROFIT(LOSS) £ million	EMPLOYEES END-MARCH 1985
Atomic Energy Authority	A M Allen CBE	[9]*	163	n/a	14,000
South of Scotland Electricity Board	Donald Miller	236	806	46	12,000
North of Scotland Hydro-Electric Board	Michael Joughin CBE	-4	292	22	4,000
National Coal Board	Ian Macgregor	730	2,018	(1939)	221,000
Electricity Council(2)	T Philip Jones CB	-1416	9942	(1277)	134,000
British Gas Corporation	Sir Denis Rooke	none set	6914	651	93,000
British Rail Board(1)(2)	Sir Robert Reid	771	3558	(307)	181,000
British Waterways Board(1)	Sir Leslie Young	45	71	2	3,000
London Regional Transport(1)	Dr Keith Bright	304	1103	n/a	56,000
National Bus Company	Robert Brooke	-13	772	(2)	50,000
Scottish Transport Group	William Stevenson	4	173	1	10,000
British Airways	Lord King	none set	2943	193	35,000
British Shipbuilders	Graham Day	73	866	(96)	41,000
British Steel Corporation(2)	Sir Robert Haslam	146	3,736	(189)	65,000

* The AEA's EFL has not been publicly announced yet.

INDUSTRY	CHAIRMAN	1986-87 EFL £ million	1984-85 TURNOVER £ million	1984-85 CURRENT COST PROFIT(LOSS) £ million	EMPLOYEES END-MARCH 1985
Civil Aviation Authority	John Dent	14	235	19	7,000
Post Office	Sir Ronald	-93	3130	123	177,000
- Girobank	Dearing	-6	265	15	6,000
British Airports Authority	Sir Norman Payne	15	362	70	7,000
Water Authorities Association	Len Hill	123	2234	302	52,000

NOTES

(1) These figures are for 15 months to 31 March 1985

(2) These figures affected by cost of miners strike as follows

British Steel (£174m)
Electricity Council (£1979)
British Rail (£250m)

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TABLE B
INVESTMENT AND FINANCING REVIEW OUTTURN

(£million)

Industry	1986-87		1987-88		1988-89	
	External finance	against baseline	External finance	Against baseline	External finance	Against baseline
British Airports Authority	15	+15	n/a(2)	n/a	n/a	n/a
British Airways/ British Gas	-400(1)	+70	n/a(2)	n/a	n/a	n/a
British Rail	771	-21	786	+18	708	-82
British Shipbuilders	73	-2	65	+6	43	-17
British Steel Corporation	146	-25	86	-50	-5	-144
British Waterways Board	45	-1	45	-2	45	-3
Civil Aviation Authority	14	-1	10	-	10	-
Electricity (England and Wales)	-1416	+31	-1685	-198	-1281	+243
London Regional Transport	304	-21	284	-19	274	-37
National Bus Company	-13	-13	n/a(2)	n/a	n/a	n/a
National Coal Board	730	+348	550	+158	400	-2
National Girobank	-6	-3	-6	-3	-14	-11
North of Scotland Hydro Electricity Board	-4	-16	-4	-13	5	-4
Post Office	-93	-38	-80	-20	-95	-33
Scottish Transport Group	4	-1	5	-2	5	-1
South of Scotland Electricity Board	236	+124	-4	+6	-138	-127
Water (England and Wales)	123	+1	14	-	15	-
TOTAL(3)	529	+446	67	-118	-27	-219

Notes:

(1) Allowance for BGC and BA which are expected to be privatised during 1986-87. Actual outturn will depend on decisions yet to be taken about the timing and circumstances of privatisation. No formal EFL is being set for either industry.

(2) No EFL being set for this or subsequent year in view of impending privatisation.

(3) Because of rounding sum of components may differ slightly from total.

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2. WAGES, INDUSTRIAL RELATIONS, AND EMPLOYMENT POLICIES

(a) Wages

(b) Industrial Relations and Employment Legislation

2[illegible]) **Wages**

Line To Take

1. The Government appreciates efforts made by Chairmen to achieve moderate pay settlements. Important that they will continue to consult the Government before making pay offers.

2. Pay restraint remains vital for job creation. Support CBI call for lower settlements in the forthcoming pay round than in the last one.

3. Overall, recent settlements in nationalised industries have been close to average in private sector. Unaware of any general "gap". But, comparison with private sector settlements irrelevant. Factors governing pay should be recruitment and retention.

Background

1. The NICG are said to be worried about the increasing "gap" in pay with the private sector. There is little evidence of a general gap. The New Earnings Survey, published on 29 October revealed that in the 12 months up to April 1985 average earnings in public corporations rose 7.5 per cent compared with 7.8 per cent in the private sector. (Distortions in miners earnings from the coal strike artificially reduced the public corporation figures).

2. Confidential evidence available to the Government shows the following picture for settlements and underlying earnings growth in recent pay rounds:

Pay Settlements by Sector (per cent)

Pay Round:	79-80	80-81	81-82	82-83	83-84	84-85	79-80 to 84-85
Public trading	18½	9½	7	5½	5	5½	62½
Private sector	18	9	7	5¾	5½	6	63¾

Underlying Increases in Average Earnings by Section (per cent)

Pay Round:	79-80	80-81	81-82	82-83	83-84	84-85	79-80 to 84-85
Public trading	21½	12	9½	7¼	7	7	83
Private sector	19	11½	10	8¼	7¾	8½	84¾

3. However, the position on private sector pay is largely irrelevant to the pay increases in the nationalised industries. These should be determined by recruitment and retention.

4. There are standing arrangements under which nationalised industry chairmen consult the Minister in the sponsoring Department before making pay offers. This consultation is valuable and needs to continue it. Ministers may also like to impress upon the chairmen the continued importance of pay restraint and their support for the CBI's call for lower settlements in the forthcoming pay round than in the last one.

2(b) Industrial Relations and Employment Legislation

Line to Take

1. Legislation planned in this area to reform operation of Wages Councils, repeal the outdated Truck Acts, and lift restrictions on Sunday trading.

2. No major trades union legislation planned for this Session but always willing to consider proposals.

Background

1. Queen' Speech indicated legislation would introduced this Session on:

(i) Reform Wages Councils: removal of people under 21 and limiting functions to setting single minimum hourly and overtime rates.

(ii) Cashless Pay: Repeal the truck Acts subjet to protection of employers from unlawful deductions.

(iii) Equal Opportunities: following European Court rulings that UK 1975 Sex Discrimination Act falls short of the requirement of the Equal Opportunities directive. The new law will require even small firmers with less than 5 employees to comply although the UK will continue to press for a change in the Direction in this respect. It will also provide for tightening up the exemptions for private households and voiding discriminatory provisions of collective agreements whether legally binding or not to comply.

(iv) Shop Acts: restrictions on hours of trading to be lifted including allowing trading on Sundays. There will be protection for existing retail employees against being forced to work on Sundays and also protection for young people.

Broadbent to Norgrove
20/11/85

2. Department of Employment are considering future possibilities, including protecting individual trade union members against their unions, extending internal trade union democracy, and restricting strikes in essential services. There are no plans for further employment legislation this Session but the NICG could be asked if they have any views about the content of any in the future.

3. Sir Ron Dearing is known to be exercised by the subject of measures to stop "key employees" disrupting whole industries. He could be asked if he has any practical ideas for dealing with this problem. It may be an area which is more appropriate for management action than legislation. For example, industries being disrupted by such action could suspend guaranteed working weeks or contract out the work of the "key employees".

MAJOR PLANNING INQUIRIES

Line to Take

1. Public inquiries certainly must not take any longer than necessary. In fact, most of the 3,000 or so planning inquiries each year into development proposals take only a few days at most: 90 per cent are completed in 1 or 2 days; only 20 lasted longer than a month in 1984.

2. There are however a handful of very important schemes which result in very long inquiries. I recognise that your industries are often the prospective developers in these cases.

3. We have been looking very closely at ways of eliminating unnecessary delay to such schemes. On occasion, Parliamentary procedure can eliminate the need for a public inquiry - this is what is being done in the case of the Channel Fixed Link. But this is possible only in exceptional circumstances. We could not prevent public inquiries as a general rule.

4. As a result of our review, we are making a number of detailed changes in the procedures which should make the process more efficient and we are particularly concerned about the scope for repetitive examination of matters which have been considered exhaustively at earlier inquiries.

5. Your own paper on these matters has only just arrived and Kenneth Baker and his officials will have to look at it before replying in detail.

[If timetabling of inquiries is raised: It is already the duty of the Inspector to control the progress of the inquiry, so that it proceeds as expeditiously as possible; we are proposing to strengthen his powers to do this. The main parties to an inquiry can help him by ensuring that their own contributions are as succinct as possible. A mandatory timetable would be impracticable: the Inspector must have discretion to allow the parties time to make any representations which he regards as material to the decision. There would be legal problems if a timetable were to prevent people from making a legitimate case.]

Background

1. The Nationalised Industries' Chairmen's Group is concerned about the cost and length of public inquiries in a few major cases and has submitted a paper to the DOE based on the work of an expert working group representing a number of the nationalised industries which promote major projects. [The NICG has just put detailed papers to the Secretary of State for the Environment on these matters. The Chairman should understand that it will need consideration before Mr Baker replies.]

2. Though there is of course a similarity in the procedures some of the most difficult or lengthy inquiries have been held not under the planning Acts, but under other legislation, eg the Archway Road inquiries (Highways Act) and Sizewell nuclear power station (Electricity Acts).

3. These notorious cases are not however typical of the planning inquiry system as a whole. In 1984, the Planning Inspectorate held just over 3,000 inquiries under the planning Acts, of which 90 per cent were completed in one or two days, and only 20 of which lasted for one month or longer.

4. The NICG will however be concerned about the major cases (which tend to relate to public sector projects). Such inquiries concentrate not so much on locational and site specific issues, as on questions of national policy, such as whether additional airport facilitites should be provided in the South East or in the regions; the role of nuclear power in energy policy; and highly technical issues like the safety of the PWR reactor. They are often operating effectively as a one man Royal Commission.

5. Ministers have often considered that it is prudent to give the public an opportunity to make representations when these matters are raised by a particular major scheme and that the inquiry concerned should cover all the revelant issues arising from the project in

question. At the same time, Ministers have been anxious to reduce to the minimum the delay and uncertainty arising from very large inquiries. In H Committee on 27 February 1985, Ministers agreed that there was no obvious alternative to the traditional form of public inquiry, but that ways needed to be found of speeding up the efficiency of the process, so as to ensure that time is not wasted. On 2 October 1985, H agreed to the Secretary of State for the Environment's proposals for changes in the inquiry procedure rules, aimed particularly at strengthening the powers of the Inspector to regulate the manner in which the proceedings are conducted; and to a number of administrative changes, largely within present procedures, including the introduction of a Code of Practice for the pre-inquiry stages of major inquiries. The proposals are now being implemented: the Council on Tribunals is being consulted about them and the necessary statutory instruments are being drafted. <u>The intention is to give publicity to these changes when the statutory instruments are law</u>.

6. H Committee also asked that there should be a further inter departmental examination of means of excluding, through administrative action, repetitive re-examination of general policy issues where there is a series of inquiries into proposals of the same general type; and an inter-departmental meeting on this subject will be held on 26 November next. We do not yet know what specific ideas the Nationalised Industries' Chairmen wish to put forward, but we would be happy to discuss these ideas with the Group.

RESTRICTED

. LOCAL AUTHORITY RATES

Line to Take

1. We are very concerned about the position of unrepresented non-domestic ratepayers in general. We want to protect them from the actions of profligate authorities.

2. We have already taken some important steps. In the Rates Act, we introduced rate-capping for the highest-spending authorities, and we required all authorities to consult business representatives before setting their rates or precepts. I wonder whether the nationalised industries ought not to seek a more active role in these consultations.

3. For the longer term, we are considering more radical proposals for reform. Possibilities include capping the non-domestic rate throughout the country, or even introducing a uniform nationally - prescribed non-domestic rate.

4. We recognise too that there is a strong case for a non-domestic revaluation. The present lists no longer reflect the true relativities between the values of different property types, or in different areas. In the course of a revaluation we would need to look again at the formulae used for valuing many nationalised industry properties. We are aware of anomalies in these, though we would not necessarily accept that in aggregate they bear harshly on the industries.

Background

1. In a letter to DOE, NICG have expressed concern about

- the extent of Corporations' rate payments, and the rate at which they are increasing (NICG figures attached);

- their inability to influence local authorities' spending decisions, particularly in areas where Corporation facilities account for a high proportion of the authority's rateable value;

- the fact that the rate burden has been a contributory factor to some closure decisions;

- allegedly 'onerous' features of the way Corporation properties are valued for rating purposes.

2. They seek an opportunity to comment at some stage on the Local Government Finance Studies (LGFS).

3. In most respects, NICG interests are similar to those of business rate payers generally. Proposals to help these being studied in the LGFS include

- the setting of a uniform national non-domestic rate poundage. This would stop authorities from milking the unrepresented business ratepayer to finance high spending. It would increase from year to year only in line with inflation.

- a revaluation to bring about a fairer incidence of the non-domestic rate burden between different property types and areas.

4. Meanwhile, local authorities have been statutorily required under the Rates Act 1984 to consult business representatives before setting their rates. (We see little evidence that the nationalised industries have done much to involve themselves in this process so far.) Rate-capping, too, provides some protection in highest spending areas. And the new joint boards in London and the Metropolitan areas will have their precepts limited for the first few years.

5. There is however one special feature of nationalised industry rating. The specialised properties of certain major public utilities - eg the gas, water and electricity authorities and the NCB - are assessed by statutory formulae, rather than by normal methods based on rental evidence. A complete review of these formulae will

be required if it is decided to carry out a revaluation. A number of anomalies in them require attention in any event. There is however no reason to suppose that <u>in aggregate</u> the results of the formulae are unfair to the nationalised industries, as the chairmen would no doubt wish to argue. The common belief indeed is that the formulae let the public utilities off lightly.

GENERAL RATES FOR 17 CORPORATIONS 1984/85

	Turnover (£m)	Rate Payment (£m)	% of Turnover 1984/85 (1984)	% Increase over previous year
Br. Airports Authority	361.6	18.9	5.23	3.3
British Gas	6913.5	132.7	1.92	4.2
British Rail	2842.7	36.7	1.29	6.0
Br. Shipbuilders	735.5	8.2	1.11	5.1
British Steel	3736.0	71.0	1.90	12.7
Br. Waterways Board	16.8	0.80	4.76	14.3
CAA	235.0	6.0	2.55	9.1
Elect. Supply Industry (E&W)	9941.5	338.2	3.40	4.9
London Regional Transport	921.0	16.9	1.83	34.1
National Bus Company	754.1	6.7	0.89	0
National Coal Board	2018.0	43.5	2.16	2.4
N.S. Hydro-Electric Board	292.3	6.9	2.36	6.2
Posts & Giro	3394.8	40.0	1.18	12.7
S.S. Electricity Board	806.4	29.3	3.63	5.0
UK Atomic Energy Authority	399.7	4.3	1.08	4.9
Water Industry (E&W)	2236.0	105.0	4.70	4.9
Total	35605	865.1	2.43%	*5.9%

* Rate payment in 1983/84 totalled £816.5m

File

DLH

Does this help? DN

10 DOWNING STREET

From the Private Secretary

13 November 1985

Dear Richard,

NATIONALISED INDUSTRIES CHAIRMEN'S GROUP

You will wish to see the letter from Sir Robert Haslam to the Prime Minister, attached.

I am copying this letter to Tony Kuczys (H M Treasury), John Graham (Scottish Office), Richard Allan (Department of Transport), Leigh Lewis (Department of Employment), Robin Young (Department of the Environment), Malcolm McHardy (Department of Trade and Industry) and John Lavin (Department of Energy).

Yours ever

David

DAVID NORGROVE

Richard Broadbent, Esq.,
Chief Secretary's Office

BM.

cc G. Grimstone HMT

Nationalised Industries' Chairmen's Group

Chairman

Sir Robert Haslam

Hobart House
Grosvenor Place
London SW1X 7AE

01-235 2020

12th November 1985

R13

The Rt. Hon. Margaret Thatcher, MP,
The Prime Minister,
10 Downing Street,
London SW1.

Dear Prime Minister,

I should like to begin by thanking you, on behalf of my colleagues and myself, for your kind invitation to all the Chairmen to dine with you on Friday, 22nd November. It is very much our hope that this will prove to be a fruitful occasion, and I believe that you will find that what we have to say on the major issues of policy accords with the broad thrust of your own thinking.

With regard to the particular subjects for discussion, I understand that you are content with what has emerged from the exchange between our staffs. I should perhaps, however, formally confirm that we wish to discuss the following points:-

1. Government-Nationalised Industry Relations:
   - Privatisation, and Arrangements for Corporations still in Public Ownership
   - Arrangements for Board Appointments
2. Wages, Industrial Relations and Employment Policies
3. Major Planning Inquiries
4. Local Authority Rates

You and your colleagues may also wish to raise other issues and we would naturally be very happy to broaden the discussion in any way you feel appropriate.

We are all looking forward to the occasion.

Yours sincerely,

Bob Haslam

File
bc PG

10 DOWNING STREET

From the Private Secretary 11 November 1985

Dear Richard,

DINNER FOR THE NATIONALISED INDUSTRY CHAIRMEN'S GROUP ON 22 NOVEMBER

In view of the NICG's wish to discuss labour relations (among other things) the Prime Minister has invited Lord Young to attend the dinner for the Group scheduled for 22 November.

I am copying this letter to Tony Kuczys (HM Treasury), John Graham (Scottish Office), Richard Allan (Department of Transport), Leigh Lewis (Department of Employment), Robin Young (Department of the Environment), Malcolm McHardy (Department of Trade and Industry) and John Lavin (Department of Energy).

Yours ever,

David.

DAVID NORGROVE

Richard Broadbent,
Chief Secretary's Office

SRW

7 November 1985

Thank you for your letter of 21 October to David Norgrove here about the forthcoming Nationalised Industries' Chairmen's Group dinner with the Prime Minister on 22 November. This is just to let you know that the Prime Minister was content with the broad agenda which you proposed for discussion at the dinner and I note that Sir Robert Haslam will be confirming these points formally with the Prime Minister in the next fortnight.

TIM FLESHER

James Driscoll, Esq.

BM.

10 DOWNING STREET

Prime Minister !

<u>NICG Dinner</u>

(i) Content with this agenda?

Yes m

(ii) Invite an Employment Minister in view of the second item?

DRN
6/11

Yes m

001/1282

010

pps please (for SG)

DAS.

→ SG

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
Private Secretary
10 Downing Street
London
SW1

4 November 1985

Dear David

NATIONALISED INDUSTRIES' CHAIRMEN'S GROUP — with DN/SG

Thank you for your letter of 30 October, enclosing the NICG's proposals for discussion at their dinner with the Prime Minister on Friday 22 November.

We are content with their proposals. The first two items provide the opportunity for a broadly based discussion. If E(NI) agree to the proposals in his minute of 22 October to the Prime Minister, the Chief Secretary hopes to have announced by Written Answer before the dinner that there will not be a general Nationalised Industries Bill. This will simplify discussion on the first item.

I will, as you suggest, co-ordinate the briefing. Officials in the Treasury will be in touch with the other Departments concerned.

I am copying this letter to John Mogg (Trade and Industry), Geoffrey Dart (Energy), Robin Young (Environment), John Graham (Scottish Office), Robert Smith (Transport), and to Stewart Lane (Employment).

Yours ever

Richard

R J BROADBENT
Private Secretary

04. XI. PM 65

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cc Morrison (DTI)
J. Moore (HMT)

10 DOWNING STREET

From the Private Secretary

30 October, 1985.

NATIONALISED INDUSTRIES' CHAIRMEN'S GROUP

I have received the enclosed letter from Mr. Driscoll of the NICG about the dinner the Prime Minister is holding for the Chairmen on 22 November. I should be grateful for your views and any comments from others.

I should also be grateful if you could in due course coordinate the briefing for the Prime Minister for this dinner.

I am sending copies of this letter to Robin Young (Department of the Environment), Tony Kuczys (HM Treasury), John Graham (Scottish Office), Stewart Lane (Mr. Morrison's Office, Department of Employment), and Mr. Lavin (Mr. Hunt's Office, Department of Energy).

(David Norgrove)

Richard Broadbent, Esq.,
HM Treasury.

→ Sue Goodchild

PRIME MINISTER

NATIONALISED INDUSTRIES CHAIRMEN'S GROUP DINNER

We are having trouble getting hold of a Department of Energy Minister for your dinner for the Nationalised Industry Chairmen. You have accepted that Mr. Walker cannot come. Mr. Buchanan-Smith reasonably points out that for him to come would mean in effect losing most of a weekend of engagements in Scotland.

Mr. David Hunt, responsible for coal, and work on gas privatisation, could come. Agree to invite Mr. Hunt?

Yes MT

DN

(David Norgrove)

24 October 1985

DN SW.

Nationalised Industries' Chairmen's Group

Director
James Driscoll

Hobart House
Grosvenor Place
London SW1X 7AE

01-235 2020

21st October, 1985

David Norgrove, Esq.,
Private Secretary,
Prime Minister's Office,
10, Downing Street,
London SW1

Dear Mr. Norgrove,

When Caroline Ryder first told Sir Robert Haslam of the Prime Minister's intention to invite Chairmen to dinner on 22nd November, she suggested that he should "submit a list of points that you would like to discuss". Following discussion on this matter with some of his colleagues, he has asked me to explore our ideas with you, before he writes formally to the Prime Minister.

We have two subjects in mind for substantial discussion, together with two further matters which we should like to mention, but which need not take up overmuch time. They run as follows:-

1. Government-NI Relations
2. Wages, Industrial Relations and Employment Policy Legislation
3. Major Planning Inquiries
4. Local Authority Rates

With regard to item 1, although I don't want to prejudge how Chairmen may choose to address the matter on the night, you might assume for briefing purposes that we shall have three main points in mind. Firstly, we shall probably want to signal a broad position on progress with Privatisation; though under this heading, your side may well have more to say than us, eg., as regards thinking about the timing of further moves, etc. Secondly, we shall want to recall that, following discussions with the then-Chief Secretary in the early part of the year, the Chairmen's Group put up ideas in March for a radically-different set of control arrangements, designed to allow Corporations to operate in ways closer to the private sector model while they remain in public ownership; and these ideas, though subsequently embodied by Treasury and NICG officials in a Joint Memorandum, remain to be discussed at Ministerial level. Thirdly, by agreement with Mr Peter Rees, the question of Board appointments, etc., was left outwith the scope of that Joint Memorandum, and we submitted a separate memorandum on this aspect in late-June, which is also awaiting discussion at Ministerial level.

Yours sincerely,

Jim Driscoll

22. X. 1985

DN o/s

I think we should press AB-S, don't you?
[initials] 21/10

10 DOWNING STREET

MR. FLESHER

NATIONALISED INDUSTRIES' CHAIRMEN'S GROUP DINNER FRIDAY, 22 NOVEMBER

Alick Buchanan-Smith has refused - longstanding constituency meeting in Scotland.

Should one of the Junior Ministers from Department of Energy now be invited?

Sue

21 October 1985

PRIME MINISTER

NATIONALISED INDUSTRIES' CHAIRMEN'S GROUP

You are giving dinner to the Nationalised Industries Chairmen on 22 November. You said earlier that you would like all the chairman (there are 19) to be invited.

On the Government side Ministers from all the nationalised industry sponsoring departments have been invited. The Secretaries of State for Transport, Environment, Scotland and the Chancellor of the Exchequer have accepted. The Secretaries of State for Trade and Industry and Energy have declined on the grounds of long standing political engagements which they are very reluctant to break. (They have been asked twice about this).

Questions:-

i. invite Peter Morrison and Alick Buchanan-Smith in place of their Secretaries of State? Yes no

ii. content that the Government side should consist of yourself plus six Ministers and a Private Secretary to host up to 19 chairmen?

Yes no

DRN

(David Norgrove)

19 October, 1985

→ Sue Goodchild SG 21/10

We spoke.

DRN

14/10.

MR. NORGROVE

WORKING DINNER FOR NATIONALISED INDUSTRIES' CHAIRMEN ON FRIDAY, 22 NOVEMBER

MINISTERIAL ATTENDANCE

Accepted

Chancellor of the Exchequer

S/S Transport

S/S Environment

S/S Scotland

Refused

S/S Trade and Industry
(suggests Peter Morrison)

S/S Energy — ? Buchanan - Smith

Sue Goodchild

—

8 October 1985

Permanent Secretaries:
? Peter Gregson

MR. NORGROVE

WORKING DINNER FOR NATIONALISED INDUSTRIES' CHAIRMEN
FRIDAY, 22 NOVEMBER 1985

I attach a letter from Mr. Baxter of the Nationalised Industries' Chairmen's Group dated 3 October.

On Ministers' attendance at this dinner, the following have refused:

S/S Trade and Industry ? Morrison	Speaking Engagement
S/S Energy	Lecture in Reading
S/S Environment	Visit to East Midlands

The other three Ministers, Chancellor, S/S Scotland and S/S Transport have still to confirm.

Sue Goodchild

4 October 1985

Sue

They are now reconsidering their refusals.

DHN
4/10.

→ Sue Goodchild.

Nationalised Industries' Chairmen's Group

Hobart House
Grosvenor Place
London SW1X 7AE

01-235 2020

3rd October, 1985

David Norgrove, Esq.,
Financial Private Secretary to
the Prime Minister,
10, Downing Street,
London SW1

Dear Mr Norgrove,

Nationalised Industries' Chairmen's Group (NICG)

Following your telephone conversations with Jim Driscoll and myself, I enclose the following papers:-

A List of names and addresses of the current NICG Members;

B List of the five sponsor Departments for the Industries;

C Brief note on the origin and functioning of NICG.

Let me know if you need any more information.

Yours sincerely,

Terry Baxter

J R Baxter.

Len Hill, Esq., CBE, JP, Chairman, Water Authorities Association, 1, Queen Anne's Gate, London SW1H 9BT.	Sec: Lyn Callagari Tel: 01-222-8111 Telex: 918518
T P Jones, Esq., CB, Chairman, Electricity Council, 30, Millbank, London SW1P 4RD.	Sec: Miss Hazel Paget Tel: 01-834-2333 01-834-5704 - Night Telex: 23385
Michael Joughin, Esq., CBE, Chairman, North of Scotland Hydro-Electric Board, 16, Rothesay Terrace, Edinburgh EH3 7SE.	Sec: Miss Mhorag Blue Tel: 031-225-1361 Telex: 72480 Fax No: 031-225-1361 Ext.2360
Lord King, Chairman, British Airways Board, Speedbird House, Heathrow Airport, PO Box 10, Hounslow TW6 2JA.	Sec: Miss Elizabeth Hawtin Tel: 01-750-5500 Telex: 8813983 (Miss Sarah Squire: 01-930-9766)
I K MacGregor, Esq., Chairman, National Coal Board, Hobart House, Grosvenor Place, London SW1X 7AE.	Sec: Miss Sheila Mann Tel: 01-235-2020 (Ext.34015) Telex: 882161
D J Miller, Esq., Chairman, South of Scotland Electricity Board, Cathcart House, Inverlair Avenue, Glasgow G44 4BE.	Sec: Miss Hamilton Tel: 041-637-7177 Telex: 777703 Fax No. 041-637-7177 Ext.3211
Sir Norman Payne, CBE, Chairman, British Airports Authority, Gatwick Airport, Gatwick, West Sussex RH6 0HZ.	Sec: Mrs Barbara Edsell (0293-595200) Tel: 0293-517755 Telex: 877995 Fax No. (0293) 59 5010
Sir Robert Reid, CBE, Chairman, British Railways Board, Euston Square, PO Box 100, London NW1 2DZ.	Sec: Ms Marion Chapman Tel: 01-262-3232 Telex: 24678

/...

Sir Denis Rooke, CBE, FRS,
Chairman,
British Gas Corporation,
Rivermill House,
152, Grosvenor Road,
London SW1V 3JL.

Sec: Mrs Barbara Hammond
Tel: 01-821-1444 (Ext.2280)
Telex: 938529
Fax No.821-8522

William Stevenson, Esq., CBE,
Chairman,
Scottish Transport Group,
Carron House,
114-116, George Street,
Edinburgh EH2 4LX.

Sec: Mrs Jean Cowie
Tel: 031-226-7491
Telex: 727384

Sir Leslie Young, CBE, DL,
Chairman,
British Waterways Board,
Melbury House,
Melbury Terrace,
London NW1 6JX.

Sec: Miss June Pell
Tel: 01-262-6711
Telex: 263605

J Driscoll, Esq.,
Director,
Nationalised Industries'
Chairmen's Group,
Hobart House,
Grosvenor Place,
London SW1X 7AE

Sec: Mrs R Hill
Tel: 01-235-2020 Ext.34475
Telex: 882161

NICG CHAIRMEN

and

Personal Secretaries

A M Allen, Esq., CBE, Chairman, UK Atomic Energy Authority, 11, Charles II Street, London SW1Y 4QP.	Sec: Mrs J Hodgkinson Tel: 01-930-5454 Telex: 22565 ATOMLOG
Dr Keith Bright, Chairman, London Regional Transport, 55, Broadway, London SW1H 0BD.	Sec: Christine Mays (01-227-3157) Tel: 01-222-5600 Telex: 893633
R Brook, Esq., CBE, Chairman, National Bus Company, 172, Buckingham Palace Road, London SW1W 9TN.	Sec: Miss Edna Hunter Tel: 01-730-3453 Telex: 27442
Lord Croham, GCB, Chairman, British National Oil Corporation, 1, Grosvenor Place, London SW1X 7HG.	Sec: Miss Susan King Tel: 01-235-8020 Telex: 8951953
J Graham Day, Esq., Chairman, British Shipbuilders, 197, Knightsbridge, London SW7 1RB.	Sec: Ms Mary Wakeley Tel: 01-589-3488 Telex: 917060 (Newcastle Tel: 0632-326772)
Sir Ronald Dearing, CB, Chairman, Post Office, Post Office Headquarters, 33, Grosvenor Place, London SW1X 1PX.	Sec: Miss Pauline Ashton (Ext.206/210) Tel: 01-235-8000 Telex: 888746
John Dent, Esq., CBE, Chairman, Civil Aviation Authority, CAA House, 43-59, Kingsway, London WC2B 6TE.	Sec: Miss Anne Dingle Tel: 01-379-7311 Telex: 883092 Fax No. 240-1153
Sir Robert Haslam, Chairman, British Steel Corporation, 9, Albert Embankment, London SE1 7SN.	Sec: Mrs Pat Brand Tel: 01-735-7654 (Ext.375) Telex: 916061 (Tate & Lyle: 01-626-6525)

/...

SPONSOR DEPARTMENTS/PUBLIC SECTOR INDUSTRIES

This list shows the sponsor Departments for the Corporations which are in membership of the Nationalised Industries' Chairmen's Group.

SPONSOR DEPARTMENT	CORPORATION
Department of ENERGY	British Gas Corporation Electricity Council National Coal Board UK Atomic Energy Authority British National Oil Corporation
Department of ENVIRONMENT	British Waterways Board Water Authorities Association
Department of TRADE & INDUSTRY	British Shipbuilders British Steel Corporation Post Office
Department of TRANSPORT	British Airports Authority British Airways British Railways Board Civil Aviation Authority London Regional Transport National Bus Company
SCOTTISH OFFICE	North of Scotland Hydro-Electric Board South of Scotland Electricity Board Scottish Transport Group

C

NOTE ON ORIGIN AND FUNCTIONING OF

NATIONALISED INDUSTRIES' CHAIRMEN'S GROUP (NICG)

1. The Group started with lunch-time meetings of some Chairmen in the 1960s. It was formalised and given a small Secretariat in the mid 1970s, largely in response to requests from the Government of the day for an established way of consulting all the Nationalised Industries collectively on some major issues.

2. The governing body of the NICG is the Council which consists of all its members and meets every second month. Between times, business of the Group is conducted by the current year's Group Chairman (Sir Robert Haslam of British Steel in 1985-86) aided by an Advisory Committee whose nucleus is the previous year's Chairman and the Chairman designate (currently Mr John Dent of the Civil Aviation Authority and Mr Philip Jones of the Electricity Council respectively). Jim Driscoll is the Group's permanent Director and heads the eight staff in the Secretariat.

3. The main subjects of perennial discussion are frameworks of Government/NI relations, finance and accounts, personnel and IR, and Board Salaries; but examples of other subjects are overseas consultancy work, the burden of planning inquiries, and procurement policy. NICG is aided in its work by information and policy advice from seven panels or groups, namely, the Finance Panel, Personnel Panel, European Panel, Economics Panel, Purchasing Officers' Panel and Nationalised Industries' Overseas Group. These meet either two monthly or ad hoc, and may be presided over either by a particular Nationalised Industry Chairman or by a senior Board Member with experience in the function concerned or by a senior professional.

4. Previous meetings between Prime Ministers and the Group have been with Mr Wilson and Mr Callaghan (twice). The present Prime Minister met them, when Leader of the Opposition, for lunch on 10th May, 1976.

5. The regular liaison meetings have been held with the Chancellor of the Exchequer accompanied by his senior colleagues (mainly Secretaries of State of sponsor Departments); and at various times there have been ad hoc meetings with Ministers on particular subjects (eg., meetings with the Chief Secretary on the NI legislation proposals put forward by the Treasury in August and December, 1984). NICG also sends its views to Government Departments in writing, either spontaneously where it feels it can make a contribution or in response to consultative documents (eg., to DHSS on pension proposals). Other contributions to policy advice are made by Members through NEDC and CBI.

3.10.85.

X3045.

10 DOWNING STREET

Prime Minister

Chancellor

Brittan

Walker

Baker

Younger

Ridley

DEW

Sue Goodchild is

checking this list

B/F 4/10 please

PRIME MINISTER

NATIONALISED INDUSTRIES' CHAIRMEN'S GROUP

You are giving dinner to the Nationalised Industries' Chairmen's Group on 22 November. This is to ask your views on the guest list.

There are 19 Chairmen. But to invite all of them would also mean inviting more from the Government side, using the Large Dining Room, and the result would be more a social than a working occasion.

The NICG are quite willing that not all of them should attend. I suggest using the Small Dining Room, which of course seats 12.

There are five main "nationalised industry Ministers": Trade and Industry, Energy, Environment, Scotland, Transport, and, in a different way, Treasury. That makes too many. I suggest:

Yourself
Mr. Lawson
Mr. Brittan
Mr. Walker
Mr. Ridley
Myself

This makes six on each side. I have not yet established that all of those people would be available so there might have to be some shuffling.

Questions:

(i) Content not to have all 19 Chairmen?
(ii) Content to invite the Ministers listed above?

Duty Clerk p.p.

DAVID NORGROVE
1 October 1985

We can use the ordinary tables in the large dining room — it will hold up to 30. It is still a working dinner. MT

EL3API

Nationalised Industries' Chairmen's Group

Chairman

Sir Robert Haslam

Hobart House
Grosvenor Place
London SW1X 7AE

01-235 2020

20th September 1985

Mrs. C.M. Ryder,
Private Secretary,
10 Downing Street,
London SW1.

cc SG

Dear Mrs. Ryder,

Thank you very much for your letter of September 17th and I know that all my colleagues on the Nationalised Industries' Chairmen's Group will be most appreciative of the Prime Minister's invitation that we should dine with her at No.10 on Friday, 22nd November. I confirm that this date will be fine for us.

I am sure that all the members of the Group will be most anxious to join the Prime Minister, but I believe we can probably have a more rewarding discussion if we can limit our numbers. This will obviously present a difficult selection problem which I would like to discuss with some of my colleagues. I will write to you again, therefore, in the future giving the names and addresses to whom the invitations should be sent and, nearer the time, will also submit a list of points we would like to discuss.

Thank you very much for your help.

Yours sincerely,

Bob Haslam

CONFIDENTIAL

Jell the DG.

10 DOWNING STREET

From the Private Secretary

19 September 1985

Dear Richard,

NATIONALISED INDUSTRY CHAIRMENS' GROUP

The Prime Minister has agreed to dine with the Nationalised Industry Chairmens' Group on Friday 22 November.

Could you please arrange for suitable briefing to be provided to her for this? (I assume that the Treasury will be able to discover the topics likely to be raised, or I could do it if you would prefer.)

I am copying this letter to Michael Gilbertson (Department of Trade and Industry) and Geoff Dart (Department of Energy).

Yours sincerely,

David.

David Norgrove

Richard Broadbent, Esq.,
Chief Secretary's Office,
H.M. Treasury.

CONFIDENTIAL

cc Sg

NOTE FOR THE FILE

NATIONALISED INDUSTRIES GROUP DINNER: 22 NOVEMBER

A Mr Driscoll rang me this morning saying that there were 19 members of their group and was this too many. I explained that the Prime Minister preferred, for working dinners, a smaller number but that if it put the group in difficulties as to who to exclude, we would be happy with that amount. Mr Driscoll was most understanding and was going to get the Chairman, Sir Robert Haslam, to cut the numbers down.

CR.

18 September 1985

File

cc: HMT
SG

10 DOWNING STREET

From the Private Secretary

17 September, 1985

I wrote to you on 28 August informing you that I would be in touch about the Prime Minister having lunch or dinner with the Nationalised Industries'Chairmen's Group.

Mrs. Thatcher would like to invite you and your colleagues to dine here at No.10 on Friday, 27 November at 1900 hrs. Being a Friday she would like to start the dinner at 1900 hrs so that everybody can get away by 2200 hrs.

I would be grateful if you would confirm that this is a convenient date to you and your Group. If it is,could you kindly let me have a list of names and addresses to whom invitations should be sent. You also kindly mentioned in your letter of 8 July that you would submit a list of points that you would like to discuss.

(Caroline Ryder)

Sir Robert Haslam.

10 DOWNING STREET

1

~~Resubmitted with fresh note at end.~~

Caroline

DTI will be in touch to try to find ½ hour toward the end of the month for a meeting between PM and CB.

David

10/9

1800

1830

3 ~~[illegible]~~ Oct

CK

Nationalised Industries Chairmans Gp.

Sir R. Haslam

File

Rey

10 DOWNING STREET

From the Private Secretary

28 August, 1985

I am sorry that you have still not received a reply from the Prime Minister to your letter of 8 July.

We are hoping to have a diary meeting with Mrs. Thatcher within the next few weeks and will write to you again.

(Caroline Ryder)

Sir Robert Haslam

RT4.68

MGA S/r

(She must do this, I think!)

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

13 August 1985

Mark Addison Esq
10 Downing Street
LONDON
SW1

Dear Mark

Sir Robert Haslam wrote to the Prime Minister on 8 July inviting her to either lunch or dinner during the coming autumn or winter. You asked for a note to confirm our telephone conversation.

There are no grounds on which to advise declining the invitation and, if it can be fitted into the Prime Minister's diary, it might be worthwhile accepting. You said there may be diary problems, and indeed we think a meeting between the Prime Minister and the Nationalised Industries Chairmen might be better later rather than sooner. This is because, following the loss of the Nationalised Industries Bill, Ministers have not yet decided the future line they wish to pursue on legislation, and the possibility of a White Paper. We expect decisions to be taken early in the autumn.

If the Prime Minister decides to accept the invitation we will co-ordinate briefing.

I am copying this letter to Janet King in the Department of Trade and Industry.

Yours sincerely

Tony Kuczys

A W KUCZYS
Private Secretary

CR

The PM has said she would like to take this on; but later rather than sooner. You will need to check a date with Treasury before responding to Sir Robert Haslam.

MEA 27/8

① 30/7
2) 6/8

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

DW275
Secretary of State for Trade and Industry

18 July 1985

Tony Kuczys will be letting us have advice.
MEA 13/8

Mark Addison Esq
Private Secretary to the Prime Minister
10 Downing Street
London
SW1

Dear Mr Addison,

The Secretary of State has asked me to thank you for your letter of 10 July enclosing a letter the Prime Minister received from Sir Robert Haslam, from the National Industries Chairmen's Group.

This is, however, the responsibility of the Treasury and I have passed your letter to the Secretary of State for reply.

Yours sincerely
Janet King

JANET KING
Private Secretary

999-1

Sir Robert HASLAM

24/7

SPW

10 DOWNING STREET

From the Private Secretary ack/ 10 July 1985

I enclose a copy of a letter which the Prime Minister has received from Sir Robert Haslam.

I should be grateful if you would provide advice by Wednesday, 24 July.

(MARK ADDISON)

Andrew Lansley, Esq.,
Department of Trade and Industry.

R9

Nationalised Industries' Chairmen's Group

Chairman

Sir Robert Haslam

Hobart House
Grosvenor Place
London SW1X 7AE

01-235 2020

8th July 1985

MEA

The Rt. Hon. Margaret Thatcher, MP
10 Downing Street,
London SW1.

Dear Prime Minister,

The Members of the Nationalised Industries' Chairmen's Group would very much appreciate it if you could see your way to joining us either for lunch or dinner during the coming Autumn or Winter.

Knowing how committed your diary is, we will obviously fit in with any date which is convenient for you. If this idea appeals to you I am sure there will be many topics which we might mutually beneficially discuss and certainly we would let you know in good time the points we would like to table.

We do hope you can accept this invitation.

Yours sincerely

Bob Haslam

010

010/106

NBPM cc ~~10~~

AT 5/6

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Geoffrey Dart Esq
Private Secretary to
Secretary of State
Department of Energy
Thames House South
Millbank
London
SW1

5 June 1985

Dear Geoff

NATIONALISED INDUSTRIES LEGISLATION

The Chief Secretary met NICG representatives on 17 May following the agreement at E(NI)(85) 1st meeting that he should complete consultations with the Chairmen.

It is possible that individual Chairmen may refer to these discussions in talking to their sponsor Ministers. The Chief Secretary has asked me therefore to circulate, for information, the note of the discussion together with a copy of a subsequent Memorandum from the NICG. The latter sets out the Chairmen's formal observations on the joint note of 29 March by Treasury and NICG officials, which recorded the common ground reached on the objectives of the proposed legislation.

The Chief Secretary is considering the points raised in those further discussions with the NICG. He will be reporting his conclusions to E(NI), as requested at the meeting on 25 April, in due course.

I am copying this letter and attachments to the Private Secretaries of members of E(NI) and to Sir Robert Armstrong.

Yours ever

Richard Broadbent

R J BROADBENT
Private Secretary

NOTE OF A MEETING HELD IN THE CHIEF SECRETARY'S ROOM ON 17 MAY 1985

Present:

Chief Secretary	Sir R Haslam	)
Mr Bailey	Mr J Dent	) Nationalised
Mr Monck	Sir R Dearing	) Industries'
Mr Moore	Mr P Jones	) Chairmens'
Mr Grimstone	Mr D Miller	) Group
Mr Hyman	Mr J Driscoll	)
Mr Palmer	Mr J Baxter	)

The meeting followed the Chief Secretary's letter of 7 May to Sir Robert Haslam (annex).

2. Welcoming the Chairmen, the Chief Secretary explained that Ministers had decided to give priority in the 1985-86 Parliamentary Session to legislation to privatise gas. Consequently that Session would not include any general nationalised industry legislation. However, he believed that the discussions which had taken place with the NICG had been very useful. He would find it helpful to know how the full NICG Council had reacted to the note agreed between Treasury and NICG officials following the 25 March meeting. He would be reporting to Ministerial colleagues before deciding how to take matters forward.

3. Sir R Haslam reported the Chairmen's reaction that the agreed note represented a major advance. There were two general points which the NICG nevertheless wished to reiterate. First, their belief that the Government - nationalised industry relationship should mirror, as far as possible, that between a private sector company and its major institutional shareholders. Second, that nationalised industry accounting practice should not get out of step with the private sector. Sir R Haslam then proceeded to outline seven points arising from the agreed note which the Chairmen wished to record.

Capital Structure; Rate of Return and Dividend Policy; EFLs

4. The Chairmen had the following observations:

(a) they believed that capital structures would necessarily have to vary considerably between industries. Gearing should broadly mirror what was found in a large private sector company in a similar line of business. They did not, however, believe that a distinction between preference and ordinary shares would be useful in the nationalised industry context where the Government held all the equity;

(b) they considered that, in the type of regime outlined in the agreed note, the industries would want to pursue a progressive dividend policy comparable to private sector companies. Profit distribution would need to be tailored to the nature of the individual business. A lower proportion might, for example, be distributed if an industry was undertaking a major investment programme. The ability of an industry to pay a dividend would, however, be the measure of the business's success. The maintenance of a progressive dividend policy would also make industries and their employees more cash conscious, emphasising the level of profits which would need to be earned. Other targets were likely to detract from this. They did not believe that the Government would lose anything by relying on dividend policy alone rather than setting also a financial target;

(c) they also believed that the introduction of dividend targets should not be accompanied by continuation of negative EFLs. If the Government wished to extract additional payments from the industries, this ought to require separate Parliamentary approval, perhaps via inclusion in a Finance Act (by analogy with the Gas Levy). More generally, the Chairmen questioned the desirability of retaining EFLs in the new operating environment envisaged. It would be psychologically important to recognise the changes which would result: at the very least EFL terminology would need to be altered. Although it was accepted that there would have to be continuing controls over industries' borrowing, Mr Miller stressed the desirability, as in the private sector, for an industry to have a reasonable degree of assurance that it would be able to undertake the necessary borrowing for the duration of lengthy, major investment projects.

(d) in considering rates of return, the Chairmen considered that any assessment of asset values should reflect the view of an industry's Board and its professional advisers as to the worth of those assets to the business at the time. In this, private sector practices should be followed. There was concern in the NICG that the work currently being undertaken in the Treasury-chaired Technical Group considering asset valuation principles should not act across this general principle.

5. In discussion, the Chief Secretary acknowledged the Chairmen's wish closely to follow private sector practice but noted that the analogy could not be pushed too far in view of the points made in officials' note. He confirmed that if dividends were paid to the Government then the same cash could not be extracted again from the industries through negative EFLs. However, EFLs had a wider relevance as a measure of public expenditure, for example in the annual Public Expenditure White Paper, and even if the terminology were altered the Government would still be concerned with the figures. Treasury officials questioned the circular effects of basing valuation of assets on their worth to the business if the worth was effectively determined by a target return on capital set below the rate of return in the economy generally. They also doubted whether the existence of both financial and dividend targets posed a problem. The starting point, as now, might be the financial target with a dividend policy consistent with this then being agreed.

6. Sir R Dearing suggested that one way of further exploring the detailed way in which capital restructuring might work

would be to investigate the possibilities in relation to one industry. He offered the Post Office for such a study. The Chief Secretary thanked Sir R Dearing for the offer and agreed to consider it further.

Resolution of Government-Industry Disagreements

7. Sir R Haslam indicated the NICG view that where major disagreements over core issues arose between the Government and a Board leading to Ministerial directions, these should be properly debated in both Houses through an affirmative rather than negative resolution procedure. The Chairman accepted that for financial matters, constitutional propriety would restrict this to the Commons.

Privatisation

8. The Chairmen believed this subject merited fuller treatment than in officials' note. In particular, they held to their earlier view that primary legislation should be required for any privatisation involving an important part of an industry's core business (BSC's tinplate activities were suggested as an example.) For peripheral business areas, secondary legislation ought to be sufficient but via affirmative rather than negative resolution procedure.

Terms of Appointment of Board Members

9. Sir R Haslam reported the Chairmen's view that Ministerial powers of dismissal should be restricted to the Chairman alone. If a Chairman was removed in circumstances in which he had his Board's support, the non Executives could be expected to resign. However, he agreed that a provision would be desirable which allowed removal of a member with appropriate compensation in cases where a Chairman and the Secretary of State agreed that this was appropriate. The NICG paper commenting on the Government's proposals was currently being revised to take account of earlier discussions. It was due to be considered

by the relevant NICG sub-group on 13 June and by the NICG Council on 12 July. He would, however, try to obtain an agreed position at the former meeting, having first taken the view of other NICG members, to expedite a response to the Chief Secretary. The paper would be comprehensive including, for example, a view of the sort of tenure which both Executive and non-Executive Members would expect.

Conclusion

10. The Chief Secretary thanked the Chairmen for giving him their views; he appreciated the careful study which this had involved. He believed that it would now be useful if an addendum could be agreed to the previous joint Treasury/NICG officials' note covering the points raised in the present discussion. He suggested officials might liaise on this. He would be reporting back to his colleagues in due course.

C A PALMER

22 May 1985

Circulation

Those present (HMT)
PPS
Financial Secretary
Minister of State
Economic Secretary
Sir Peter Middleton
Mr Byatt
Mr Cropper
Mr Lord
Mr H Davies

NATIONALISED INDUSTRIES' CHAIRMEN'S GROUP

OBSERVATIONS ON THE JOINT MEMORANDUM

GENERAL ATTITUDE

1. The arrangements outlined in the Joint Memorandum are clearly better than those outlined in the Consultation Note of 20.12.84. Even so, when the NICG Council met on 25th April, it identified a number of points on which it wished to see further improvements made; and it reserved the right to withhold a positive commitment until the Government's views on those points had been elucidated and the final framework could be seen.

2. In approaching this whole issue, the basic criterion which the Chairmen's Group has had in mind is that the relationship between the Government and the nationalised industries should mirror the private sector pattern as much as possible, since experience suggests that this is likely to be the best way to ensure the effectiveness of the nationalised industries as business enterprises. Admittedly, the "private analogy" cannot wholly apply; but in the broad, the intention should be to bring the relationship between the Board of a public sector Corporation and its sponsor Minister into line with that normally prevailing between the Board of a large private sector company and a financial institution which holds the predominant part of its shares.

3. If that basic criterion is to be satisfied, the accounting practices to be followed by the Corporations will need to be the same as those applied by major private sector companies. This principle of equivalence should take precedence over any preference for some particular accounting approach.

PARTICULAR RESERVATIONS

4. Negative EFLs, [Joint Memorandum, para.13]. Once the concept of dividend payments has been introduced, it will be illogical for negative EFLs to continue to be set. If the Government sees good reason to impose some additonal impost on a Corporation, over and above its dividend payments and normal tax liabilities, then it should seek separate legislative approval for such a special charge, as was done for the Gas Levy through the Finance Acts.

5. Positive EFLs, [JM, paras. 13-14]. The Chairmen's Group accepts that Ministers will need to maintain some form of control over the scale of borrowings by those Corporations which have to call on external sources of finance. Even so, it would help to signify the overall change in relationships which is envisaged if the existing system for doing this, ie. the announcement of positive EFLs, were to be dropped and some new terminology introduced.

6. "Parliamentary Adjudications", [JM, para.17]. The Chairmen's Group welcomes the fact that the Joint Memorandum moves away from the earlier proposal to give Ministers the right to impose statutory targets, and instead envisages normally proceeding by way of agreement between Ministers and the Boards. It accepts that, if major disagreements were nevertheless to arise over balance sheet restructuring, the overall profit to be sought or dividend policy, and these could not be resolved in any other way, Ministers

should have the right to bring proposals to Parliament for adjudication. However, in this event, Ministers should be required to proceed by introducing Affirmative Resolutions in both Houses of Parliament, (except where constitutional practice indicates submission to the Commons alone).

7. Balance Sheet Restructuring, etc., [JM, paras. 7-9]. Five points arise :-

(a) The concept of a three-part capital structure is welcome; but it should be acknowledged from the start that the balance to be struck between the three elements will necesarily need to vary from Corporation to Corporation.

(b) With regard to the debt element in that revised capital structure, the Chairmen's Group, which was gravely concerned about the earlier suggestion that Ministers should be able to impose decisions involving the conversion of reserves into debt, welcomes the fact that the Joint Memorandum embodies two safeguarding provisions in this connection :-

- that with regard to balance sheet restructuring generally, the power to initiate proposals should lie with the Board concerned; and
- that with regard to the creation of debt from reserves, any such step should require the specific agreement of the Board concerned, and should be done only in order to provide a suitable gearing.

In connection with that last point, the Chairmen's Group remains altogether-unconvinced that it would be equitable to convert reserves which have been built up on the basis of the achievements of the Corporations concerned and the contributions of their customers into fixed-interest debt to be owned by the Treasury. At very least, the gearing in any reconstructed balance sheet should be similar to that which would normally be expected to occur in a large private sector company in a not-dissimilar industry.

(c) Any assessment of what is meant by the "up-to-date value of the assets employed" when a balance sheet is reconstructed should reflect the judgement of the Board and its professional advisers about the continuing worth of the business, using the same methods of appraisal as would normally be applied by private sector Boards in similar circumstances. The Chairmen's Group would be strongly opposed to any suggestion that this process should be replaced by the application to the nationalised industries alone of special rules based on a CCA calculation of asset values.

(d) The role suggested for preference shares has no validity, since with the Treasury holding all the equity, such shares would simply give the Government preferential claims over itself.

8. "Double Targetry", [JM, paras. 10-14]. The Chairmen's Group is concerned about the complications inherent in the proposal to set rate of return targets as well as dividend targets. There is no intention to suggest that matters other than dividend targets should not be discussed. On the contrary, both the level of profit (or loss-reduction) to be aimed at, and policy towards the various factors which bear on how much of that total profit will be available for distribution as dividends, will necessarily

be major matters for consideration and agreement between each Corporation and its sponsor Department in the context of the annual discussions on the Corporate Plans. Nevertheless, in terms of formal targetry, priority should attach to reaching an agreement on a progressive dividend policy for each Board. This particular target subsumes all the other prior steps in the Board's corporate planning; it provides the public-at-large with a readily-understandable test of the Corporation's effectiveness; and it accords with the "private sector analogy" which should shape all aspects of the new arrangements.

9. Dismissal of Board Members, [JM, para.18]. NICG believes that the proposed power to dismiss Board Members, with which it is suggested that Ministers should be equipped as their "ultimate discipline" over the Boards, need apply to Chairmen only. If a Chairman were to be dismissed following a basic disagreement with his sponsor Secretary of State, his Deputy Chairman and the non-Executive Members of his Board, having hitherto supported him, would doubtless feel obliged to consider very seriously indeed their own positions regarding continuing membership of the Board; and this should be taken as sufficient to satisfy the purpose in mind: while the extension of the Minister's ultimate disciplinary power to cover career Executive Members would be neither necessary nor desirable. The position regarding the dismissal of Executive Members on the ground of ineffectiveness will be dealt with in the detailed paper on the Board Appointments issue as a whole which NICG plans to submit in the near future.

10. Privatisation, etc., [JM, para.5]. The Chairmen's Group has indicated its readiness to discuss possible legislative changes bearing on company formation and Privatisation on the basis of the proposals set out in the Consultation Note of 22.12.84; but this should not be taken to imply that it is broadly satisfied with the content of those proposals. It has already raised two major points in this connection, in the memorandum tabled on 27th February, [Annexe, para.A10] :-

- that primary legislation should be required, not only in the event of a move to privatise the whole of a Corporation, but also in the event of a move to privatise any signficant part of its main-line activities; and
- that in the event of a move to privatise any appreciable peripheral activity, recourse to the "affirmative Order" procedure should be required.

In addition, individual Corporations raised a considerable number of points about this part of the Consultation Note, bearing on the situation of subsidiary companies, etc., during their consultations with their sponsor Departments during February and March.

21.5.1985.

NATIONALISED INDUSTRIES LEGISLATION

Note by HM Treasury and NICG Officials

Following on from the meeting held between the Chief Secretary and the NICG on 25 March, this note records the common ground that has been reached between NICG and Treasury officials on the underlying objectives which should shape the proposed nationalised industry legislation and on the broad outline of the proposals which follow. Subject to its agreement by Ministers collectively and by the NICG, it is intended to serve as a basis for further discussion of the details of the proposed legislation.

General Objectives

2. The central objective of the proposed legislation is to increase the effectiveness and commercial vitality of nationalised industries. It is intended to strengthen the industries to the point where they can either be transferred to the private sector or remain as successful businesses within the public sector where this is appropriate.

3. The overall effect of the proposed legislation will be to move the industries closer to the position of large private sector companies at a pace to be decided in light of the situation of individual industries. As long as industries remain in the public sector, the analogy with private sector arrangements cannot be exact and it will be necessary to ensure that the legislation makes provision for the needs of public accountability and the special circumstances of nationalised industries. These include the degree of monopoly power possessed by some industries, the fact that the Government is perceived as standing behind the industries financially and that some industries are at present not profitable, the need to protect consumers, and the need to ensure that resources within the public sector generally earn an adequate rate of return in comparison with that earned in the private sector. Subject to this however, the powers would provide for disciplines corresponding to those found in the private sector

to be maintained. Wherever it is appropriate, Ministers' powers will be comparable to those of controlling shareholders in large private sector companies.

4. It is agreed that the proposals should seek to introduce a greater degree of uniformity into industries' individual statutes where this can be done without cutting across the very wide differences in their industrial and commercial situation.

5. The NICG accepts that the provisions in the consultative document other than those set out below can serve as a basis for discussion but will wish to review further the details of what is proposed. This acceptance covers borrowing and guarantees; accounts (except accounting principles), reports and audit; and restructuring and privatisation. Discussion of terms of appointments of board members awaits a further note that is being produced by the NICG (although see paragraph 18 below).

6. It is common ground that in implementing the provisions of the proposed legislation, Ministers would generally hope to proceed by agreement with the boards of the industries concerned.

Capital structure

7. It is intended to take enabling powers that would allow the capital structures of nationalised industries to be moved closer to those found in large private sector companies, implying an appropriate mix of state-owned public equity capital (PEC), loan capital, and reserves. This would strengthen financial disciplines and reduce the need for ad hoc intervention. The legislation should equip Ministers with whatever powers are necessary to give effect to this intention.

8. In carrying out any such restructuring, proper account would be taken of professional advice as to the up-to-date value of the assets employed. The construction of proposals would be the responsibility of the appropriate board although Ministers would be able to initiate the process by asking a board to submit a recommendation. All restructuring proposals would be discussed on a case by case basis between an industry, the Secretary of State,

nd the Treasury.

9. The equity element of the new structure could take a number of forms, having the characteristics of cumulative preference as well as ordinary shares, in proportions appropriate to the circumstances of an industry (with profitable industries normally having a greater proportion of preference capital). Additional debt would be created from reserves only with the specific agreement of the appropriate board and in order to provide a suitable gearing. In order to add flexibility between major restructurings, a board would be able to propose at the end of any accounting period, that reserves be converted into additional PEC in a way that would parallel scrip issues in the private sector.

Rate of return on capital and dividend policy

10. Listed companies in the private sector are subject to a variety of financial disciplines which stimulate them to seek to earn an adequate return on capital. If their return on capital employed falls below that generally applying in the sector in which they operate, they are at risk of takeover; and in a less drastic sense their financial performance is closely monitored by investment analysts and, if performance is below par, the company's share price will suffer. These disciplines do not exist in the public sector but somehow have to be replicated. It is agreed that this should be done by boards and Ministers agreeing from time to time an appropriate target rate of return on capital employed in an industry. Existing arrangements for setting cost-reduction targets would continue unchanged in light of the particular circumstance of the business.

11. At the same time, the dividend targets would be agreed that should apply over the target period. The actual level of overall dividends to be paid in any one year on an industry's share capital (ordinary and preference) would be proposed by the board in a way analogous to company practice and would reflect trading performance and profitability. Preference dividends, if not paid fully in any one year, would be expected to cumulate over the target period.

12. Achievement of rate of return targets and dividend targets would not be expressed in terms of a duty upon a board but as a best

endeavours aim enshrined in statute. Boards would be required to conduct their business with a view to achieving whatever rate of return and dividend targets had been agreed

13. Appropriate rates of return and dividend targets would be discussed as part of a corporate plan dialogue. This might review such factors as industries' expected future finances and investment intentions, the levels of proposed calls on external finance, and the balance between dividend distribution and allocations to reserves. The general intention would be to agree rate of return targets and dividend targets that would cover a target period of at least 3 years. NICG note the Government's intention that present arrangements for setting EFLs would be unchanged, although the incidence of negative EFLs should be greatly reduced.

14. Additional controls would generally be appropriate for loss-making industries and their financial targets might take the form of loss reduction targets. Dividends would be inappropriate until financial health was restored.

Accounting principles

15. The accounting principles to be laid down by the Secretary of State will be intended to result in true and fair accounts and follow generally accepted accounting practice except where peculiarities in the industries' situation clearly require special provisions.

Discipline

16. Ministers would generally hope to proceed by agreement with the boards of the industries concerned. It is not the Government's intention to undermine the position or the authority of the industries' boards.

17. There are however cases where public accountability requires

certain rights to be reserved to Ministers (eg approval of borrowing). Additionally, in certain key areas, if Ministers felt that the national interest was not being sufficiently recognised, the authority for resolving disagreement would be Parliament. This implies that if agreement cannot be reached on balance sheet restructuring, the target return on capital, or dividend policy, specific Parliamentary approval would need to be sought if exceptionally Ministers wished to proceed other than by agreement.

18. As part of a set of new measures which would move the industries closer to the position of large private sector companies, the NICG accepts that the major ultimate discipline available to Ministers should be the power to dismiss board members though the position of executive members will need further consideration. Further discussion of how this would operate in practice awaits finalisation of a note that NICG are preparing.

29 March 1985

C.B.I.

Prime Minister (2)

Nationalised Industries' Chairmen's Group

MCS 30/3

Hobart House
Grosvenor Place
London SW1X 7AE
01-235 2020

M

29th March, 1982

Private Secretary to
The Prime Minister,
10, Downing Street,
London SW1

MS

Dear Private Secretary,

You may be interested to know that Mr Norman Payne, Chairman of the British Airports Authority, has been appointed as Group Chairman of the Nationalised Industries' Chairmen's Group for 1982/83. I attach a copy of the announcement concerning the Office Bearers for NICG, which is being released to the Press for publication on 1st April, 1982.

Yours sincerely,

Jim Carrie

NATIONALISED INDUSTRIES' CHAIRMEN'S GROUP

OFFICE BEARERS, 1982/83

1. Mr Norman Payne, Chairman of the British Airports Authority, has been appointed to serve as Group Chairman of the Nationalised Industries' Chairmen's Group for 1982/83, with effect from 1st April, 1982. Mr Payne has been Chairman-Elect of NICG for the past year.

2. Mr Ron Dearing, Chairman of Posts and National Girobank, has been elected as Chairman-Elect of NICG for 1982/83.

3. Sir Robert Marshall, Chairman of the National Water Council, who was Group Chairman of NICG for 1981/82, becomes Past Chairman of the Group for the coming year.

4. The Nationalised Industries' Chairmen's Group, the Nationalised Industries' Overseas Group and the British Section of the Centre Européen de l'Entreprise Publique will in future be serviced by a single Secretariat, headed by Mr James Driscoll, Director of NICG.

Nationalised Industries' Chairmen's Group

Secretary
J M R Carlill

PO Box 403
33 Grosvenor Place
London SW1X 7JG

01-235 1212

31st March, 1981

Nat Ind

Private Secretary to
The Prime Minister,
10, Downing Street,

Dear Private Secretary,

You may like to know that Sir Robert Marshall, Chairman of the National Water Council, has been elected as Group Chairman of the Nationalised Industries' Chairmen's Group for 1981/82, with effect from 1st April, 1981. Sir Robert was Chairman-Elect of NICG for the year 1980/81.

Sir Derek Ezra, Chairman of the National Coal Board and Group Chairman of NICG for 1980/81, becomes Past Chairman of the Group for the coming year.

Yours sincerely,

Jim Carlill.

Nat Ind
cc Mr Vereker

T.
7/8

NOTE OF A MEETING HELD IN THE CHANCELLOR OF THE EXCHEQUER'S ROOM, H.M. TREASURY AT 9.00 A.M. ON MONDAY, 28 JULY, 1980

Present:

Chancellor of the Exchequer
Secretary of State for Industry
Secretary of State for Employment
Secretary of State for Energy
Secretary of State for Trade
Minister of Transport
Minister for Local Government and Environmental Services
Mr. Ryrie
Mr. Monck

Sir Derek Ezra (National Coal Board)
Sir William Barlow (Post Office)
Sir Denis Rooke (British Gas Corporation)
Sir Frank Tombs (Electricity Council)
Sir Peter Parker (British Rail)
Mr. Ian MacGregor (British Steel Corporation)
Sir Robin Marshall (National Water Authority)
Mr. Ross Stainton (British Airways)
Mr. J. Driscoll (NICG Secretariat)

NATIONALISED INDUSTRIES: PAY AND EXTERNAL FINANCING LIMITS

The Chancellor welcomed the representatives of the Nationalised Industries Chairmen's Group. He noted that Ministers would have suggested a meeting with the Chairmen about pay in the nationalised industries, if Sir Derek Ezra had not proposed it. He saw a clear distinction between the public service and public trading sectors; the nationalised industries were operating in the markets for goods and services, and had to live alongside the private sector. The Government's objective for the nationalised industries, as for the private sector, was to bring pay settlements down to a more sensible level, so as to achieve greater competitiveness. The Government were not setting any kind of pay norm, but they were pointing to the clear link between high pay settlements and increasing unemployment, and to the bounds set by the Government's monetary target. The Government were seeking in much the same way as the CBI to reduce expectations about the next round of pay increases, which would need broadly to be in single figures, given the monetary target and the need to minimise damage to competitiveness. Sir Derek Ezra said that the Chairmen would welcome the Government's broad approach.

2. A number of points were made in a general discussion of the criteria which should govern pay determination in nationalised industries:-

(i) the monopoly position of some of the industries meant that disputes in those industries could inflict substantial damage on the rest of the economy and reduce the ability of the managements to resist wage demands. On the other hand, however, the extent of monopoly situations should not be exaggerated; for example, the NCB could be exposed to considerable competition from imports, while British Rail plainly were competing in the freight market. Moreover short run exploitation of a monopoly position was likely to have adverse implications in the longer run for an industry's output and employment.

(ii) "Ability to pay" was not an argument which carried much conviction in the nationalised industries - and particularly in those which were profitable; and it was in any event questionable whether the Government wanted to rely too heavily on this particular pressure, since experience so far suggested that even in the private sector it was only effective when the firms concerned had been driven to the edge of bankruptcy. Nor could productivity bargaining supply the complete answer, since in a number of the industries effective local productivity payment arrangements were already in successful operation. The NICG understood that the CBI would be dropping the 'ability to pay" argument.

(iii) The need for nationalised industries to retain sufficient cash to finance their investment programmes might serve as a reason for pay moderation in some instances; but in other industries prices sufficient both to finance new investment and to make net repayments of debt were being charged, and arguments based on the need to generate further internal funds could not carry conviction. It was also questionable how far expanding capital-intensive businesses ought to increase their prices in order to achieve a higher degree of self-financing.

(iv) Nevertheless in one way or another each of the industries was affected by the links between pay and prices, and pay and unemployment. All the industries were under financial pressure of some kind, and the arguments reflecting these links would need to be deployed in each case in a way which reflected the particular circumstances of the industry concerned.

(v) It was important to ensure consistency from year to year in the approach by the Government and the nationalised industry managements towards pay in the industry; they should avoid changing the arguments from one negotiation to the next for what would appear to be opportunistic reasons.

3. Particular emphasis was laid on the need for effective communication between nationalised industry managements and their employees. Although the Government could make a very substantial contribution towards improving the public understanding of the economic realities underlying pay determination, the Government's general message could not provide the precise answer in the case of each of the industries. In devising appropriate means of communication, nationalised industry managements would

need to bear in mind the differences of view and approach between national union leaderships, local union officials, and the mass of employees on the shopfloor. There was some evidence that the shopfloor were readier to come to grips with economic realities than the leadership, while the leadership was in a better position to communicate directly with the management. Managements should therefore seek to improve their communications with the shopfloor, and the need to do this should be brought home to line managers and supervisors at every level. At the same time it would be helpful if Government departments could be kept in touch with the precise approach towards pay bargaining being adopted in each industry, and the arguments which were being deployed, so that the Government's and the industries' efforts could more effectively complement each other.

4. Attention was focussed on the risks of political reactions from some of the trade unions concerned. These unions might look for an opportunity to present the external financing limits (EFLs) fixed by the Government as in some sense a confrontation with them, and the Government and the nationalised industry managements should therefore try to avoid driving trade union leaders into a corner from which they had to fight back. This had some implication for the size of next year's EFLs, and the extent to which wage increases could be held below increases in prices. Some of the nationalised industries chairmen referred to their earlier proposal for publishing in the autumn only an aggregate EFL for the industries as a whole, with the breakdown between industries only published much later when the tone of the pay round was much clearer. Other Chairmen, however, had found it helpful to have the EFL clearly specified, so that the union negotiators concerned could see plainly when there was no more money to be had.

5. <u>The Chancellor</u> noted that detailed work on fixing the EFLs for 1981-82 would begin in September. It would be important that what was assumed about pay in each case should not be made public, since this would gravely weaken the hand of the managements concerned in subsequent negotiations. While it ~~would~~ might in some

respects be more convenient to delay fixing the EFLs until nearer the beginning of the next financial year, when more accurate business forecasts could be made, the fact remained that the Government were responsible for overall public sector cash flow, and had to have a clear basis on which to set fiscal policy. The recommendations of the Armstrong Committee, if they were to be accepted, would mean fixing EFLs even earlier than was now contemplated. It was accepted that not too much reliance should be placed on EFLs in securing moderation in pay settlements; external finance was generally a small proportion of each industry's total turnover, and some ~~trade~~ union negotiaters were reluctant to accept their relevance to pay settlements. On the ~~specific~~ assumptions to be made about pay, the Chancellor emphasised that these would need to reflect the fact that the government would be aiming ~~generally to be well below the 13 per cent assumed~~ for example, at figures significantly lower than the 13% assumed for last years RSG while at the same time it was clearly necessary in the ~~last year's~~ RSG settlement, while at the same time the Government and ~~the industries would need~~ to avoid the last Government's mistake of seeking to apply any single figure across the board particularly ~~sticking too rigidly to a figure~~ as low as 5 per cent. ~~for across the board application.~~

6. In further discussion of influencing pay attitudes in the longer-run, the point was made that the Government could usefully broadly its contacts with the trade union leaders concerned. Only a minority were concerned in NEDC discussions, and a dialogue needed to be established with the others. An important advance would be achieved if the TUC could be persuaded to take part in widening public understanding of economic realities. At the same time the obstacles in the way of the creation of the sort of consensus on pay which seems to operate in Germany, and the difficulties of making progress with the TUC leadership, were clearly recognised. It was suggested that more emphasis on the positive steps to improve UK real wages, and the contribution employees could make towards this, would be helpful.

7. Sir Derek Ezra said the NICG would like to put forward some ideas on the longer term approach to pay in nationalised industries, and suggested that these might be discussed by a

joint group officials and NICG representatives analogous with the recent Ryrie group on nationalised industries finance.

Conclusions

8. The following conclusions were recorded:

(i) the nationalised industries would inform the sponsor Departments of the approach they would be taking to the next round of pay negotiations, and of the steps they were taking to communicate the managements's viewpoint to their employees;

(ii) work on the establishment of next year's EFLs (which would be announced in November) would begin in mid-September, on the basis that the Government would not be setting any sort of a pay norm but that in general pay increases and the provision for them would need to be held well below the provision in the current year's RSG, in order to achieve consistency with the monetary target and avoid further damage to UK competitiveness; and

(iii) a meeting between Ministers and the full NICG would be held towards the end of this year.

JW

(A J WIGGINS)
30 July 1980

Distribution

PS/Financial Secretary
Sir Douglas Wass
Sir Anthony Rawlinson
Mr. Ryrie
Mr. Middleton or
Mr. Dixon
Mr. Monck
Mrs. Case
Mr. P. Rayner
Mr. Ridley

Private Secretaries to Ministers present at the meeting
PS/Secretary of State for Scotland
Mr. T. Lankester, No.10

Nat Ind

Nationalised Industries' Chairmen's Group

Secretary
Peter J G Wilkins

PO Box 403
33 Grosvenor Place
London SW1X 7JG

01-235 1212

9 MAY 1980

PRIVATE SECRETARY TO THE
PRIME MINISTER

Dear Private Secretary

I enclose an advance copy of a note about a change in the Chairmanship of the Nationalised Industries' Chairmen's Group.

Yours sincerely

Peter Wilkins

Nationalised Industries' Chairmen's Group

PO Box 403
33 Grosvenor Place
London SW1X 7JG

01-235 1212

CHAIRMANSHIP OF THE GROUP

Following on from his decision not to accept the chairmanship of British Telecommunications and to leave the public sector sometime in the Autumn, Sir William Barlow has concluded that he should retire from his position as Chairman of the Nationalised Industries' Chairmen's Group earlier rather than later in the year. His colleagues have accepted that decision with much regret.

The NICG Council has appointed Sir Derek Ezra, Chairman of the National Coal Board, to serve as Group Chairman for 1980/81.

12th May, 1980.

2
PRIME MINISTER

MJS

PAYMASTER GENERAL

PRIVY COUNCIL OFFICE

WHITEHALL, LONDON SW1A 2AT

6 May 1980

Clive Whitmore Esq
Principal Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Clive

At the Media Briefing Meeting this morning I understand that the Prime Minister asked for a copy of the speech the Paymaster General gave at the Annual General Meeting of the Stratford-upon-Avon and South Worcestershire Conservative Association.

A copy of the speech is attached.

Yours ever

Richard

R E S PRESCOTT
Private Secretary

7 Speaking Notes

Conservative Central Office

NEWS SERVICE

Release time: 20.45 hours/FRIDAY, 2nd MAY, 1980. 339/80

Extract from a speech by The Rt Hon Angus MAUDE, TD, MP, (Stratford-upon-Avon) Paymaster General, speaking at the Annual General Meeting of the Stratford -upon-Avon & South Worcestershire Conservative Association, at the Town Hall, Stratford-upon-Avon, on Friday, 2nd MAY, 1980.

We are always being asked to explain Government policy and the reasons for it in simple terms. Not easy, but let me try.

First, it is a myth that Governments can spend the country into prosperity. The last two Governments tried it, and it made things worse. So that's out.

The Government has no money. It can only spend your tax money: more spending, higher taxes.. If it borrows, you pay the interest. If it borrows too much, all interest rates go up, including mortgages.

Social services can be improved only if the wealth is created to provide the resources. Governments can't create wealth - only people can do that, providing goods and services at competitive prices.

Higher pay without higher production means higher prices, more inflation, and in the long run fewer jobs.

You can't protect inefficient industries and firms for long by import controls. Other countries will ban our goods and so put more people out of work. And you just put off the day when our firms have to become more competitive.

Pay controls - Government incomes policies - never work for long. In the end the dam bursts and inflation roars ahead again.

So employers and unions must reach pay settlements which firms can afford without raising prices to the consumer and losing business to cheaper producers. More pay must mean higher productivity. Despite Arthur Scargill, the Yorkshire miners have grasped this and seem to be revelling in it.

/The only...

The only alternative is that some - if not most - people will have to put up for a time with lower real living standards. You can't absorb, for example, a 50 per cent increase in world oil prices just by demanding more pay without more production.

Government can't solve all these problems. It can only create conditions in which people can bargain on equal terms, improve efficiency and reap the rewards of it.

This we are doing. There is no alternative - except to go back to the Labour policies that failed, and which were rejected by the voters last year. And there's no point in saying we should proceed more slowly: that only means it will take longer to effect a cure - to get inflation down and create new jobs.

END

FILE

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CF. to file ?

Lecture kept by PM.

11 April 1980

In Clive Whitmore's absence, I am writing to thank you for your letter of 2 April with which you enclosed a copy of Professor Heath's most interesting lecture on "management in the nationalised industries".

I am bringing this to the Prime Minister's attention.

T. P. LANKESTER

James Driscoll, Esq.

TPL (OR)
I have not acKd
MS 9/4

Nationalised Industries' Chairmen's Group

Director
James Driscoll

PO Box 403
33 Grosvenor Place
London SW1X 7JG

01-235 1212

2nd April, 1980.

C.A. Whitmore, Esq.,
Principal Private Secretary to
the Prime Minister,
10, Downing Street,
LONDON, S.W.1.

Dear Mr. Whitmore,

Second NICG Annual Lecture

I attach, for your interest, a copy of the lecture on "Management in the Nationalised Industries", given recently by Professor John Heath of the London Business School.

Yours sincerely,

James Driscoll

Nat Ind

10 DOWNING STREET

From the Principal Private Secretary 2 April 1980

<u>Nationalised Industries' Chairmen's Group</u>

I am grateful to you for sending to me with your letter of 31 March the list of the NICG Office Bearers for the coming year.

G. A. WHITMORE

P.J.G. Wilkins, Esq.

2

Nationalised Industries' Chairmen's Group

Secretary
Peter J G Wilkins

PO Box 403
33 Grosvenor Place
London SW1X 7JG

01-235 1212

31 MARCH 1980

PRINCIPAL PRIVATE SECRETARY
TO THE PRIME MINISTER
10 DOWNING STREET
LONDON SW1

Prime Minister.
To see.
MP
1/4

Dear Principal Private Secretary

NATIONALISED INDUSTRIES' CHAIRMEN'S GROUP

You may find it useful to have a copy of the attached note about the NICG Office Bearers for the coming year.

Yours sincerely

Peter Wilkins

NATIONALISED INDUSTRIES' CHAIRMEN'S GROUP

OFFICE BEARERS, 1980/81

1. Sir William Barlow, Chairman of the Post Office, has been appointed as Group Chairman of the Nationalised Industries' Chairmen's Group for 1980/81, with effect from 1st April, 1980. Sir William has been Chairman-Elect of NICG for the past year.

2. Sir Francis Tombs, Chairman of the Electricity Council and Group Chairman of NICG for 1979/80, becomes Past Chairman of the Group for the coming year.

3. Sir Derek Ezra, Chairman of the National Coal Board, has been elected as Chairman-Elect of NICG for 1980/81.

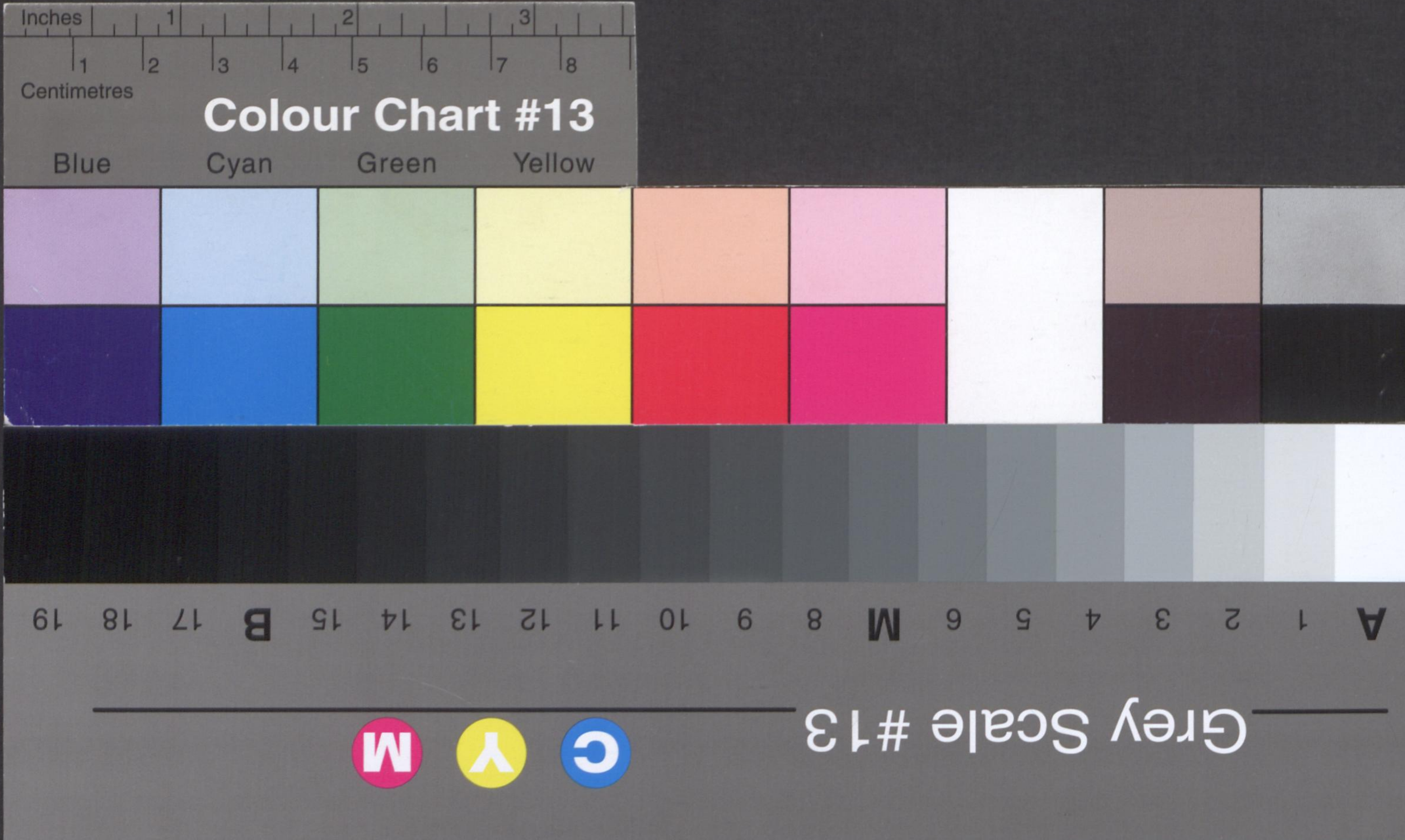
4. These three Office Bearers, together with the Director of NICG, will form the Advisory Committee of the Group for 1980/81. Sir Peter Parker, Chairman of British Railways Board, retires from this body on the completion of his year as Past Chairman.

5. An up-to-date list of the members of NICG is appended. It includes for the first time Mr. Ronald Utiger, Chairman of British National Oil Corporation, who has recently joined the Group, and Dr. A.W. Pearce, who has just succeeded Lord Beswick as Chairman of British Aerospace.

6. Mr. James Driscoll, the Director of the Group, has hitherto divided his time between that post and his position as Adviser, Corporate Strategy to British Steel Corporation. He is shortly to retire from that latter position and concentrate on NICG affairs.

MEMBERS OF NICG

Sir William Barlow	The Post Office
Mr R Bennett	London Transport Executive
Mr D R Berridge	South of Scotland Electricity Board
Sir Humphrey Browne CBE	British Transport Docks Board
The Lord Donnet of Balgay CBE	Scottish Transport Group
Sir Derek Ezra MBE	National Coal Board
Sir Nigel Foulkes	Civil Aviation Authority
Admiral Sir Anthony Griffin GCB	British Shipbuilders
Sir John Hill	U K Atomic Energy Authority
The Lord Kirkhill	North of Scotland Hydro-Electric Board
Mr R L E Lawrence CBE ERD	National Freight Corporation
Sir Robert Marshall KCB MBE	National Water Council
Sir Peter Parker MVO	British Railways Board
Mr N J Payne CBE	British Airports Authority
Dr A W Pearce CBE	British Aerospace
Sir Frank Price	British Waterways Board
Sir Denis Rooke CBE FRS	British Gas Corporation
The Rt Hon the Lord Shepherd PC	National Bus Company
Mr J R Stainton CBE	British Airways Board
Sir Francis Tombs	The Electricity Council
Mr R E Utiger CBE	British National Oil Corporation
Sir Charles Villiers MC	British Steel Corporation


Inches 1 2 3
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Colour Chart #13
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Grey Scale #13
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