RECORD OF A MEETING BETWEEN MINISTERS AND THE NATIONALISED INDUSTRIES CHAIRMEN'S GROUP: HELD AT NO 12 DOWNING STREET AT 3PM ON THURSDAY 18 DECEMBER, 1980

M. Wolfson
M. Walters
M. Duguid
may wish to see.
J.V. 9/1

Present:

Chancellor of the Exchequer
Secretary of State for Industry
Secretary of State for Energy
Secretary of State for Employment
Chief Secretary
Minister of Transport

Sir Derek Ezra
Mr Robert Atkinson
Sir Humphrey Browne
Lord Donnet
Sir Nigel Foulkes
Sir John Hill
Lord Kirkhill
Sir Robert Marshall
Sir Peter Parker
Mr N J Payne
Sir Austin Pearce
Sir Frank Price
Sir Denis Rooke
Mr Philip Shelbourne
The Rt Hon Lord Shepherd
Sir Francis Tombs

In attendance:

Mr W S Ryrie
Mr T U Burgner

Mr Driscoll
Miss Lohdon

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1. The Agenda for the meeting is attached.

2. The Chancellor welcomed the Chairmen to the first full scale meeting for some time, noting that useful progress had been made in more restricted meetings over the past year. The agreed agenda was intended to allow both sides to cover points of current concern.

Government/Nationalised industry relations

3. In a brief introduction, the Chancellor said that although Ministers and Chairmen were inevitably at odds from time to time, they had a joint interest in attaining the right outcome on matters of mutual concern.

4. Sir Derek Ezra said that the relationship had always been an uneasy one. But the Chairmen were currently particularly concerned about the tenor of Ministerial speeches on financial aspects. In recent months these had seem deliberately critical, going beyond an expression of Ministers' political views. Some Ministers had

ascribed to the industries unjustifiably a lack of reaction to the changing economic scheme and an absence of capacity for this compared with the private sector. This was unsettling for the management, whose expertise and ability was highly regarded abroad and by the private sector industries with whom the nationalised industries worked closely. He added that the industries had no objection to properly directed criticism.

5. The Chancellor said that the industries like the Government liked to be loved. Despite a plethora of studies, an effective means of operating Morrisonian nationalised industries had yet to be devised. He appreciated that the industries had genuine concerns eg, the aggregation of their borrowing with that of the Government and difficult managerial problems eg, with the unions, where Ministers wanted to strengthen their hands. For their part, Ministers were aware of a sustained off the record chorus from the industries, criticising the Government's attitude as foot-dragging. The Secretary of State for Industry added that Ministers must be free to comment on the structure and difficulties of public ownership. The Government's philosophy was one of reducing the public sector: the public had to given an objective analysis of the arguments for this. Public sector industries were less adaptable than the private sector. This was not the fault of current management; rather it was inherent, attributable to the pervasive influence of the absence of the sanction of bankruptcy, together with the powerful influence of the trades unions. The Chancellor added that not all criticism of the industries was justified eg, where pricing policy was determined by Government but Ministers were bound to take up fair criticisms eg, those identified by the MMC.

6. Sir Derek Ezra noted that generalisations were often at the root of difficulties. Sir Francis Tombs added that there had been very biased comments of a general nature by individual Ministers, equating all borrowing by the industries with subsidy. The Minister of Transport said that it was important to recognise the differences between the nationalised industries eg, between service industries like rail and manufacturing industries like steel. Mr Dearing added that the workforce would look to management to defend it against criticism: this could be dangerous if it led to criticism escalating in a destructive way.

7. Sir Denis Rooke said that he could not agree that the private sector was inevitably more efficient. The nationalised industries had played their part in creating new businesses and responding to the market. Sir Derek Ezra added that the CBI's medium term review of the economy would note good performance of public sector industry in purchasing policy.

Financial framework

8. Turning to the second item on the agenda, Sir Derek Ezra said that the Chairmen wanted to add a third topic under this heading - the impact of the financial framework in relation to the economic crisis which was leading to serious problems for some industries.

a) Outcome of Ryrie Group

9. On the outcome of the work of the Ryrie Group, Sir Francis Tombs said that this had been positive and helpful. He valued highly the open-minded approach taken by the Treasury. The revised presentation agreed for the Financial Statistics and Budget Report (Red Book) should clarify misunderstanding about the purpose and extent of the industries' borrowing. The change in rules for borrowing from the NLF had been a major break-through and further work was in hand on variable interest loans and direct access to markets within EFLs. The Chairmen attached importance to the code for operation of EFLs and would want to discuss this. A set of rules was necessary to replace the cobbled up ad hoc solutions adopted at present. In return the industries had agreed to more frequent, and he hoped better, forecasts of their borrowing needs. More progress had been made in the past year than for the previous seven or eight. The Chancellor agreed that useful work had been done and that outstanding items should be pursued quickly. His 4 August statement went a long way towards meeting the Chairmen's wish for better, clearer rules on EFLs; officials would be ready to look respectfully at anything the Chairmen's Group put forward.

b) Impact of the Recession

10. Turning to the impact of the recession, Sir Derek Ezra said that changes in the economic outlook over the past 12 months had given the

industries' markets a new dimension. Financial objectives agreed 12 months ago were no longer valid. There was a need for a total rethink and painful adjustments which could require additional financing. Funds might be needed for additional redundancy payments or the costs of accelerated closures. Individual industries would be taking up these points with their Departments. The Chancellor commented that the industries were in the same position as both the private sector and the Government. He echoed what Sir Derek had said about a total rethink and painful adjustment but the amount of additional finance available was limited for all. Although this was less than the industries had wanted, the Government had increased provision for nationalised industries in 1981-82 by £800 million in recognition of the effects of the recession.

c) Further issues, including private capital

11. Sir Derek Ezra said these further issues were how the industries got their finance, whether this counted against the PSBR and to what extent the industries' cash problem would be eased if they could borrow from the private sector. The Group were thinking about this problem. Given the different financial position of individual industries, it was not easy to distil a common position but they would put forward propositions in due course. Sir Denis Rooke would take the lead in this.

12. The Chancellor emphasised that the Government were most anxious to find a way forward which would avoid the conflict of interest between the Government and industries. But a solution would need to take account of the reality of the implicit guarantee and to satisfy the Public Accounts Committee about the cost of finance outside the NLF. Joint activities with the private sector eg, the gas gathering pipeline offered an attractive way forward and other paths were already being charted. Sir Denis Rooke commented that the myth of PSBR definition was a fence which stopped sensible practical schemes going ahead. There was something wrong with the definition if industries had to sell their souls to meet it. The Group would be putting forward a number of proposals. If the Government rejected them they would be cutting off their nose to spite their face.

13. The Minister of Transport pointed out that in his group of industries progress was already being made in different ways by the National Freight Company, the British Transport Docks Board and British Rail subsidiaries. There was no question of any of those Chairmen selling their souls. The Secretary of State for Energy added that imaginative solutions were needed which confronted the Chancellor's basic problem - the need to reduce the PSBR.

14. Sir Francis Tombs commented that privatisation of fringe activities did not tackle the central issues which were the failure of present definitions to discriminate between borrowing to finance capital and revenue expenditure and the way in which the PSBR was linked with a notion of control. Sir Peter Parker added that there was no dearth of new ideas around or of major projects eg, electrification of the railways which could be identified. The Chancellor commented that it was as easy to increase problems by this route as to diminish them. Mr Ryrie said that it was important to keep in mind the purpose of the exercise. This was not simply to create another form of borrowing or one in direct competition with Government borrowing. Simple financial devices were not answer. What was needed was far reaching structural changes whereby genuine risk capital could be involved in market situations.

15. The Chancellor said that the initiative lay with the industries to follow up some of the ideas which had been floated for involving private capital but Ministers were prepared to examine the proposals which the Group put forward.

Pay

16. Invited to open the discussion, Sir Peter Parker said that the industries shared the Government's view of the importance of the public trading sector in achieving lower settlements. The absence of a single common figure in fixing EFLs was a helpful recognition of its differing degree of importance for pay negotiations between industries. The industries knew how important it was to fight for single figures. Ministers might like to know that the Chairmen's Group had set up a working party to update their earlier report on longer term pay issues: the results should be available in the Spring.

17. The Chancellor said that there was no national or public sector pay policy in terms of precise figures. Where the Government was directly concerned as employer in the public services there had to be a cash limit on the public expenditure concerned. For the industries, he suggested a reasonable expectation was increases comparable to those in the parts of the private sector most open to international trading conditions. The Government was crucially concerned to get settlements as low as possible, bearing in mind that three fifths of the UK's loss of competitiveness since 1978 was due to high wage costs. 6 per cent was not unreasonable in the light of experiences in the period 1951-1964 when increases also averaged 6 per cent, of which 3 per cent was inflation and 3 per cent growth.

18. Lord Shepherd said that it was important to hold the line on fringe benefits, holidays and sickness as well as on straight rates of pay. Sir Austin Pearce suggested that more needed to be done to get lower settlements in the financial services sector and to counter the unions' feeling that they would make good any restraint now when the upturn came. Mr Dearing added that if the industries were to take a tough line, which they all agreed they should, they would expect understanding in relation to the costs involved.

19. In reply to a question from the Chancellor about how the perception in the market place of the coal settlement as 13 per cent might be altered, Sir Derek Ezra said that he was reluctant to intervene explicitly, although he had done what he could to ensure that other employers knew and could use the full story. Sir Francis Tombs said that full time union officials knew the position: the difficulty was shop stewards in local negotiations.

Board Members Pay

20. Sir Denis Rooke reported that the Group had made progress in their discussions with the Civil Service Department but were still concerned about three things. First, that Ministers should be fully committed to the market philosphy underlying the new system. There was no point replacing the TSRB by new administrative rules. Second, they did not understand why the starting point for the new rules had to be current rates of pay. The Government ought to accept the analysis underlying the last TSRB report, allow the

industries to move towards implementing it and only begin the new system of structural reviews at that stage. Otherwise the industries would be merely duplicating the work of TSRB. Finally they had suggested that Board Members should be paid as executives of the corporation concerned, with their pay determined through remuneration committees subject to the veto of the Secretary of State concerned and with a small fee as board members equal to that paid to non-executive Directors. Sir Derek Ezra said that despite these concerns, they welcomed the progress which had been made.

21. In reply the Chancellor emphasised that the Government were moving to unhook the industries and enable the market to breathe.

Conclusion

22. In conclusion, the Chancellor thanked the Chairmen for a useful exchange of views.