

CONFIDENTIAL

01 211 6402

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of The Exchequer
HM Treasury
Treasury Chambers
Parliament St
London SW1P 3AG

15 December 1982

Dear Chancellor,

PARLIAMENTARY CONTROL OF EXPENDITURE (REFORM) BILL

I am writing to give colleagues my views on your paper (C(82)42) and that from Arthur Cockfield (C(82)44).

I share the strong concern expressed by Arthur, and also by Patrick Jenkin, David Howell and John Sparrow in their letters of 13 and 14 December. The proposals in this Bill are incompatible with our objective of encouraging commercial behaviour in the nationalised industries. They are also incompatible with the means - more entrepreneurial leadership; commercially-orientated scrutiny; and the injection of private capital - by which we are pursuing that objective. The Bill would also end the present arms-length relationship between Government and nationalised industries, turning them in effect into Government Departments. Among other disadvantages, this would greatly exacerbate the industrial relations problems we face, not least in the coal industry.


I fear that the possible lines of agreement between us and the Bill's sponsors, which you identify as concessions in your paper will hardly avoid all this damage.

I am also very concerned about the proposal to concede C & AG access to companies in which the Government has a majority shareholding, such as BNFL - even after a possible sale of 49% of the shares. While I note John Biffen's judgement that there is a chance that support for the Bill could carry it,

even in the face of Government opposition, this still seems far from inevitable. Consequently I suggest that colleagues continue to give serious consideration to mustering the greatest possible support for our view with the object of opposing the Bill at Second Reading. If we should fail to sway the House, we might still achieve support for subsequent amendments to the Bill which would limit the damage just as well, if not better, than could be achieved now by hurried negotiation with its sponsors.

I am copying this letter to Cabinet colleagues, Sir Robert Armstrong and John Sparrow.

Yours sincerely,

(S.C.) 

NIGEL LAWSON

(Approved by the Secretary of State and signed in his absence)

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14 DEC 1982

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

FST DEPT 14.02

The Rt Hon Sir Geoffrey Howe, QC, MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
SW1P 3AG

14 December 1982

Dear Sir

PARLIAMENTARY CONTROL OF EXPENDITURE (REFORM BILL)

John Biffen has sent me and other colleagues a copy of his letter to you of 7 December about this Bill, and his discussions with Norman St John Stevas and Edward du Cann.

I recognise from the preliminary discussion at Cabinet that the position is really very awkward. But acceptance of this Bill will mean a reversal of a decision which we took in "E", and will also have fundamental implications for our policies for nationalised industries, following the CPRS report. In these circumstances, it seems to me that it would be most undesirable to have a discussion with Norman St John Stevas, Edward du Cann and Joel Barnett, in which you would inevitably have to extend the discussion beyond the limits agreed in 'E' until we have had an opportunity to consider this collectively. It may be that our broad plan for changing the character of our 'nationalised industries' can be harmonised with, even strengthened by, the changes proposed in the Bill. But we have to be quite clear about the direction in which we are going.

Copies of this go to those to whom John Biffen copied his letter.

Yours ever
David

DAVID HOWELL

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JF2210

Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

13 December 1982

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Dear Geoffrey,

I was grateful to John Biffen for copying to me his letter of 7 December on Norman St John-Stevas' proposed Bill implementing the PAC's First Special Report. We did of course have a chance to discuss this topic briefly at Cabinet last Thursday. *will request is required*

2 What we know of the Bill raises very substantial issues which we need to consider collectively and I understand you will be putting proposals to us shortly. I should however right away register my view that it will not be possible to reconcile PAC access to the books of the nationalised industries and other major publicly owned companies that the sponsors of the Bill seek and the approach to the nationalised industries we have been at pains to construct in the light of last year's CPRS report. Can we in any case, even if we wish to, draft in a few weeks, legislation which would in effect call for a refashioning of much of our nationalised industry legislation? I recognise of course the strength of feeling in the House on this issue, and I am not against attempting to go some way to meet it, but I believe John Biffen's letter is altogether too pessimistic about the chances of persuading the sponsors to see that there are other courses open to them which they ought responsibly to consider.

3 I am aware that the meeting John Biffen suggests you arrange early this week at No 11 will be essentially exploratory. I wonder, however, whether you might think there would be advantage in one of the main nationalised industry sponsor Ministers being present? It does seem to me immensely important that the sponsors of the Bill should hear direct from a Minister who actually handles day-to-day relationships with nationalised industries the very real difficulties to which the PAC's proposals will give rise.



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4 For instance, do they disagree with our policy as set out in the preceding paragraph? If not, how do they think it can be reconciled with their own approach? Again, do they realise that it would be even more difficult than now to recruit top quality managers to run the industries when candidates realise the far greater level of Parliamentary supervision that will be entailed? Or again, how far do the Bill's sponsors expect Ministers to be answerable to Parliament for the exercise of their statutory functions when Parliament itself, through the C&AG, will have greater access to the NI's books? These all seem to me issues of fundamental importance which simply have not been faced by the Bill's sponsors. Putting these points to them would not of course prevent us taking the open and constructive line John Biffen has in mind - but it might guard against the chances of foreclosing the option of resisting, as I believe we must, the fundamental point about PAC access to nationalised industries' books.

5 As you will expect I am also very concerned about application of the concept, implicit in the Special Report, that the C&AG would have the right "to follow public money wherever it goes". This sounds quite unexceptionable, but if it is to mean in practice that E&AD staff will have the right of entry to all private firms and individual businessmen who take up various kinds of Government assistance, aids to investment etc, the result could be catastrophic! It would certainly undermine business confidence in the schemes. I wonder whether this point has seriously been considered by the Bill's sponsors?

6 As I indicated in Cabinet last Thursday, I am genuinely fearful of what is proposed. I do not believe that the case against the Report has been fully exposed : certainly, it has never been understood by the House.

7 I am copying this to all members of 'E' and 'L' Committees, to John Sparrow and to Sir Robert Armstrong.

Your ever
Patel

Govt Mach. Role of the Comptroller & Auditor General
Pt 2

11 - DEC 1982



M. Scholar - to see



CABINET OFFICE

Central Policy Review Staff

With the compliments of
John Sparrow

70 Whitehall, London SW1A 2AS
Telephone 01-233 7765



CABINET OFFICE
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

Qa 06188

From: John Sparrow
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13 December 1982

The Rt Hon Sir Geoffrey Howe QC MP
HM TREASURY
S W 1

Dear Geoffrey,

Nationalised Industries: The Role of the Comptroller
and Auditor General

I understand that you are shortly to meet Mr St John Stevas and others to discuss his Bill on the role of the C & AG, particularly with regard to nationalised industries. I appreciate that one cannot ignore the Parliamentary realities of the situation, but the proposed changes carry such clear disadvantages that I hope that all steps possible will be taken both to resist them and, to the extent that it is necessary, to change Parliamentary opinion to be against them.

Although I am sure that Mr St John Stevas and his supporters expect his proposals to be constructive, in fact they threaten a serious set back to the extensive efforts that are being made to improve both the efficiency of nationalised industries and the relationships between those industries and Whitehall. I comment below on some of the areas which particularly concern me.

(i) In place of Ministers' present clear responsibility for nationalised industries, there would be a blurring of responsibility and accountability between Ministers on the one hand and the PAC/C & AG on the other. The chain of accountability to Parliament is via Ministers, and a sponsor Minister who found that Parliament was being told things that he himself had not previously known would be in a very difficult position. Such a division of responsibility cannot make for good management or good communications.

2 papers 2

*Prime Minister
letter from Mr.
Jenkin attached below*

FERB

14.12.

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(ii) MMC Section 11 references are beginning to be accepted as a suitable way of investigating and improving NI efficiency. The MMC has now developed expertise and gained experience in this area, and has produced some good quality work. A change to the C & AG is bound to set back that progress.

(iii) There are real doubts about the suitability of E & AD personnel for the type of work that would be required for NIs. Even if they take on new staff, that will take time and there would still be the question whether either their goals or their approach would be as appropriate as those likely to be pursued by a Minister or a sponsor Department, who could be expected to have a deeper and continuing understanding of the areas where efficiency audits of NIs would be likely to have the greatest value. Real progress is being made in inculcating a businesslike approach on the part of sponsor Departments. It is difficult to believe that E & AD could easily bring the same approach or expertise to bear.

(iv) NI Chairmen and Boards already believe that they suffer too much interference on minor issues from Government. They are bound to see the proposed changes as likely to increase their exposure to such interference, involving still more senior management time, handling issues which they will argue should be left to them as the managers of the business. The resulting suspicions and defensiveness are the precise opposite of the attitudes we hope to achieve by the proposals in the CPRS Report. They are also likely to make it more difficult to find high calibre people prepared to become Chairmen and Board members.

(v) It is hard to see any part-way compromise that would be acceptable. Once the door is open to the C & AG, it will be difficult to devise any practical limit to his ability to probe most aspects of NI business. Even if limits are claimed, NIs will remain suspicious that they will be breached in practice.

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I believe therefore that these proposals for wider C & AG access to NI affairs should if at all possible be resisted, and the scope for changes that would do less damage to the relationship between the Government and nationalised industries, fully explored. We should continue to argue that the changes now being made on the basis of the CPRS Report and the wider and more systematic use of the MMC should be allowed to develop and to demonstrate their effectiveness in meeting the points which have concerned the PAC. To change now can only set back that process and seems likely to replace a potentially effective mechanism with a less effective alternative, which will blur responsibility and increase the NIs' resistance to change.

Lastly, whatever conclusion is reached, it is essential that careful thought be given to its communication to NI Chairmen, individually or collectively. It would be unfortunate if the Government were to be blamed for the outcome of a Private Member's Bill, or if the Chairmen felt that they had been deprived of any say in the matter. A discussion between you and the Chairman of the NICG could be one way of remedying this.

I am sending copies of this letter to the Prime Minister, other members of E(NI), and Sir Robert Armstrong.

Yours sincerely,

J. Sparrow

John Sparrow

Govt Mach. Role of Comptroller & Auditor General.

Pt 2