BF 7/6 AT

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MR TURNBULL

NATIONALISED INDUSTRIES BILL

I have seen the exchange of correspondence between Peter Rees and Peter Walker.

Peter Walker is right in raising queries on the latest Treasury proposals. They have not all been discussed in full and together by E(NI), and there is a case for sending it back there to resolve these difficulties. Some people in the industries will construe this as an attack upon their position, but this is likely whatever the structure of the Bill.

It is right, however, to set common obligations and duties on a range of nationalised industries, and to repeal all of the different pieces of legislation about financial duties currently in place.

The main clause in the Bill which is vital to future nationalised industry policy is that allowing the establishment of separate Companies Act subsidiaries, and disposal of the assets. Peter Walker does not disagree with this clause, and it is important that it goes through in a robust way.

The clauses concerning the break-even duty and financial objectives have caused more difficulties. I can see little point in retaining a duty to break even if there is a wider power to set a range of financial targets, objectives and financing limits. The break-even duty is a nonsense both for the very profitable industries like gas, and for the heavy loss-making industries like British Rail and the National Coal Board. The burden of policy should be to force the loss-makers back towards profitability by setting ever tighter, but realistic, financial targets. I therefore recommend that the break-even duty be discontinued.

Peter Walker objects to the wider term "financial objectives". He does not think EFLs and performance aims ought to be statutory, and thinks they ought to remain subservient to financial targets. There are too many separate targets and objectives for nationalised industries at the moment, and of the ones on offer, the External Financing Limits and the performance targets are in many ways better than the financial targets. We could therefore support the granting of wider powers to set financial objectives, but we could allay some of the industry fears by a clause which states that where more than one target is set, the Government has a duty to make clear which is the prime target. In most cases, the prime target should be the External Financing Limit; but where the business is a

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monopoly, performance targets are a necessary adjunct, otherwise the financial target can be hit by clobbering the customer.

Peter Walker does not object to the proposals on reserves. There is a case for giving powers to claw money back, although this will be contested by the industries.

There is disagreement between Peter Rees and Peter Walker over value-for-money audits. They both refer to the difficulties experienced in Parliament with the St John Stevas proposals last year, and it is true that any attempt to legislate on VFM audit will arouse further debate on this sensitive issue. However, it may not be possible to avoid debate on the whole issue of accountability, which will bring in VFM audit whether or not the Bill contains clauses to this effect.

The best type of value-for-money audit is not a random power to set up economy, efficiency and effectiveness scrutinies from time to time. A true value-for-money audit happens annually and is coincident with the financial regularity audit. It results in a general inspection of the effectiveness, efficiency and economy of the business, backed up by sampling the specific decisions and detailed areas of the activity on which a separate management letter or report would be filed by the auditors. It is a matter of public interest to know whether or not the major nationalised industries are being conducted in a way which generates value for money. This could be the subject of a separate audit report, as it now has to be for the local authorities; and this could be embodied in Statute, as again it was for the local authorities.

<u>Recommendation</u>

It is recommended that:

1. These major issues be put back to E(NI), as there is ground for further debate. This should happen speedily to avoid delaying the Bill.

2. The requirement to break even be dropped, as it is now superseded by the other financial targets.

3. A wider power for setting financial obligations and duties should be included, but the industries' worst fears be allayed by the Government having to specify which is the prior target.

4. Value-for-money audits should be included in the legislation, and should be part of the general financial audit. The general tenor of their comments

would be published as part of the annual report, and could then form part of the regular Parliamentary debate in the normal way.

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