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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 appoint-ments
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~~

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1. <u>GOVERNMENT-NATIONALISED INDUSTRY RELATIONS</u>

(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

1([redacted] **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 7¼ per cent compared with 8½ 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

ha[illegible] 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.

[illegible]) <u>Miscellaneous</u>

(iii) <u>Current Financial Position of Industries</u>

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 <u>plus</u> 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 Dearing	-93	3130	123	177,000
- Girobank		-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 External finance	1986-87 against baseline	1987-88 External finance	1987-88 Against baseline	1988-89 External finance	1988-89 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( ) 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".

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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.

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. 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 in aggregate 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