By direction of the Prime Minister the attached draft sections of a White Paper on Planning Agreements and the National Enterprise Board are circulated for consideration by the Cabinet on 2 August. The introductory paragraphs will be circulated separately.

Signed JOHN HUNT

Cabinet Office
1 August 1974
PLANNING AGREEMENTS

1. In their application to the private sector, Planning Agreements will provide a new and improved framework for co-operation between the Government and leading industrial companies. A Planning Agreement will not be an agreement in the sense of a civil contract enforceable at law. It will, however, be given sufficient recognition by statute to enable the company concerned to rely on assistance promised under it. The Act which gives effect to the new system will also provide reserve powers to require the relevant companies to provide the Government and the workers in the firm with the information needed to formulate and monitor a Planning Agreement. There will, however, be no statutory requirement upon a company to conclude an Agreement.

2. The heart of this system will be a series of consultations between the Government and companies, leading to an Agreement about plans for the following three years; these will be reviewed and rolled forward annually. In the course of these consultations, the Government will assess with the company its needs for assistance to support and reinforce agreed company plans. In particular, if in the course of these discussions it becomes clear that in order to align the company's plans with national needs some financial assistance is required beyond that which would in any case be available to the company by way of regional development aid and regional employment premium, the Government will be ready to provide the kind of discretionary financial assistance by way of grants and loans for which the Industry Act now provides, and will discuss with the company the scale on which and the purposes for which this assistance should be provided, so as to meet the requirements of individual recipients and to further the achievement of national objectives. In order that companies shall have greater certainty in making and carrying out their plans, the Government intend that once an Agreement has been concluded, regional assistance for the projects which it covers will, during the currency of the Agreement, not fall below the rates in force at the time of the Agreement. Moreover these discussions could help to identify requirements for investment funds for consideration by the NEB, if necessary by means of joint ventures with the companies. More generally, the intention is that the outcome of discussions with companies will have an important bearing on the formulation of the Government's own plans; in this way the needs of companies and the economy will be better served.
3. Financial assistance under the Industry Act will of course continue to be available for companies not covered by Planning Agreements, as well as those entering into Agreements which satisfy criteria for assistance. The administration of these programmes will be reviewed to ensure that the needs of small companies outside the arrangements for Planning Agreements will be catered for. The Government also intends to conduct a thorough-going review of the arrangements for granting regional development aid, but there will be no changes in the existing arrangements over the next twelve months. The payment of Regional Employment Premium will not be affected by any of these proposals.
4. In their discussions with companies, the Government will be concerned only with strategic issues. In addition, they regard it as most important that the new arrangements should not restrict the freedom of companies to respond to market changes, particularly where they are in competition with overseas manufacturers. The Government would welcome the views of firms on the issues that principally concern them. Clearly they might well vary from company to company but matters of obvious concern to the Government would include:

- Investment, with particular reference to its timing and location;
- Productivity;
- Employment, with special reference to its regional balance;
- Exports and import saving, and investment directed to these ends;
- Product development;
- Implications of company plans for industrial relations and arrangements for negotiation and consultation;
- Interests of consumers and the community.

5. The Government recognise that, even in relation to a small number of important issues of this kind, companies' plans and forecasts which go beyond the immediate future may be subject to change at short notice in response to market fluctuations. Despite these reservations and uncertainties, the Government believe that the new relationship they are seeking with companies and the associated financial assistance would benefit the companies taking part and would lead to better arrangements for the management of the economy.

COMPANIES TO BE COVERED

6. The new arrangements will apply to major and strategic firms in key sectors of manufacturing industry, and in selected industries other than manufacturing of particular importance to the economy. Multinational companies will be included in respect of their British holdings. It will, however, not be possible to operate Planning Agreements from the very outset so that they cover all the companies that will eventually fall within their scope. A transitional period will be necessary, both for the companies themselves and for Government Departments which will need to develop adequate arrangements to handle the plans which are put to them without delay. The Government are determined to see that the benefits of the new arrangements they propose should be secured with the minimum of extra administrative cost for the companies concerned and for the Government service. They will therefore be selective
in their initial approach, and will introduce Planning Agreements in selected sectors of particular importance. We intend to begin with companies in sectors which, like the engineering industry, lie at the heart of our export effort.

7. The major nationalised industries and publicly-owned firms will also fall within the scope of the Planning Agreements system, which in their case will be administered through the sponsoring Departments. Their relationship with Government is already very close, and extends beyond the relevant statutes governing the nationalised industries into, for example, the joint scrutiny of their corporate plans. Recent years have seen the introduction of arrangements by which the nationalised industries and major publicly-owned firms submit corporate plans to Government, and by which Departments monitor their progress at regular intervals against an annual operating plan.

8. Employees and their representatives will have a major interest in the issues covered by Planning Agreements. The Government intend that the plans to be covered by an Agreement will be drawn up by management in close consultation with trade union representatives at the level of the firm. The framing and up-dating of Agreements would thus involve a continuing discussion between management and unions and would constitute an important advance in the part to be played by industrial democracy in the planning of company strategy. The Government would also envisage that union representatives from companies, while not formally parties to Planning Agreements, would also take part where they so wished in consultations on Agreements with the Government.

9. If consultation is to be effective, union representatives must be provided with all the necessary information relevant to the contents of Planning Agreements. The Government would therefore require employers to disclose information of this kind, except where disclosure could seriously prejudice the company's commercial interests or would be contrary to the interests of national security.
CONSULTATION

10. The Government propose to enter into immediate discussions with both sides of industry, and with the National Economic Development Council, about the best means of implementing the new system and the sectors of industry in which it might most usefully be first employed. The Government's intention throughout would be to look for arrangements which were simple and flexible and were as far as possible based on the existing planning arrangements of individual companies. The kind of procedural arrangements which might lead up to a Planning Agreement are briefly described in an Annex.

INFORMATION TO BE PROVIDED BY GOVERNMENT

11. The Government's projections and the companies' own intentions and plans will interact on each other; the primary purpose of a Planning Agreement is that they should. In producing their projections the Government will need to take account of companies' own plans, while the companies will for their part want to know the Government's views on the likely development of the economy. In this way the Government and the companies concerned will share with each other their developing assessments of future trends. The Government would welcome the views of those responsible for corporate planning in industry about the information which would be of the greatest value to them and how it might most suitably be disseminated. The question is not whether Government projections should be supplied within the context of Planning Agreements but which projections, given the unavoidable uncertainties, are likely to be of most value.
12. The Government propose to create a new instrument to secure where necessary large scale sustained investment to offset the effects of the short term pull of market forces. These new powers of initiative are better exercised through a new agency than dealt with direct by Government, and for this purpose it is proposed to set up a National Enterprise Board (NEB).

13. One of the functions of this new agency will be to build on and enlarge the activities previously discharged by the Industrial Reorganisation Corporation (IRC). It will in addition be an industrial holding company with subsidiary companies in manufacturing industry. A number of existing Government shareholdings in companies will be transferred to the Board immediately on its establishment. Its main strength in manufacturing will come however from the acquisition of a number of key firms (see paragraph 2 below). It will have power to start new ventures and participate in joint ventures with companies in the private sector. Adequate funds will be made available to enable the Board to expand its activities vigorously to discharge the responsibilities set out below:

a. It will be a new source of investment capital for manufacturing industry; in providing finance it will normally take a corresponding share in the equity capital. In this it will set out to supplement and not to displace the supply of investment from existing financial institutions and from companies' own resources (see paragraph 16).

b. It will have the former Industrial Reorganisation Corporation's entrepreneurial role in promoting industrial efficiency and profitability by promoting or assisting the reorganisation or development of an industry but, unlike the IRC, the NEB will in general retain the shareholdings it acquires. In discharging these functions it may take financial interests in companies or act in a purely advisory role (see paragraph 17).

c. It will act as a holding company to control and exercise central management of:

   i. certain existing Government shareholdings vested in
   ii. interests taken into public ownership under powers in the
       Industry Act 1972, which it is proposed to consolidate and extend;
   iii. new acquisitions by the NEB (see paragraphs 18-23).
d. It will be a channel through which the Government will assist sound companies which are in short term financial or managerial difficulties (see paragraph 22).

e. It will be an instrument through which the Government operate directly to create employment in areas of high unemployment (see paragraph 25).

f. Government Departments, the nationalised industries and private firms will be able to seek the advice of the NEB on financial and managerial issues.

14. The Board will be responsible for securing the efficient management of the companies and assets vested in it. It will compete with companies in the private sector and be expected to operate in accordance with suitable financial objectives. Its guiding financial objective will be to secure an adequate return on that part of the nation’s capital for which it is responsible. When the Government require the NEB to depart from this objective on social grounds, the subsidies will be administered by the NEB, and will be separately accounted for. The Board’s financial arrangements will have to be carefully worked out to safeguard against uneconomic allocation of the nation’s resources.

INDUSTRIAL DEMOCRACY

15. The Government envisages a major development of industrial democracy throughout industry in the years ahead. Within that framework, the NEB will play its part in ensuring that enterprises under its control provide for the full involvement of employees in decision-making at all levels.

PROVISION OF INVESTMENT CAPITAL

16. Within the framework of Ministerial oversight outlined below, the NEB will have powers to make loans and to take shareholdings in companies where it considers that such action is in the public interest and in particular when in its judgement lack of finance is prejudicing worthwhile industrial development. In deciding which projects to support within its financial allocation, it will be expected to give emphasis to the promotion of industrial efficiency; to the creation of employment opportunities in assisted areas; to increasing exports or reducing undue dependence on imports; to co-operation with the Offshore Supplies Office in promoting development in the offshore oil supplies industry; and to sponsoring investment that will offset the effect of monopoly.
Restructuring Industries

17. In exercising its powers to promote or assist in the reorganisation or development of an industry the Board may take share in the equity capital of existing companies or take part in the establishment of new enterprises. When it is involved in restructuring programmes, its overriding purpose will be to promote the effectiveness and efficiency of the industry. It will work closely with the Department of Industry which will be able to complement initiatives by the NEB through the use of its powers of selective financial assistance under the Industry Act.

vesting existing government shareholdings

18. The Government have a number of existing shareholdings in industry. Their acquisition over a large number of years has been in response to a diverse range of policy objectives. Some of these holdings may not be appropriate for vesting in the NEB eg, the holdings in shipbuilding companies or in companies whose activities are largely overseas (British Petroleum, Cable and Wireless Ltd and the Suez Finance Company). It is however intended that the Government shareholdings in the following companies should be vested in the NEB -

- Rolls Royce (1971) Ltd
- International Computers (Holdings) Ltd
- [George Kent Ltd]
- Nuclear Enterprises Ltd
- Dunford Elliott Ltd
- Kearney and Trecker Marwin Ltd
- Norton Villiers Triumph Ltd
FUTURE ACQUISITIONS

19. During the past few years vast industrial empires have been built on the basis of asset-stripping and financial manipulations. These have paid scant regard to the interests of the workers in the firms involved and the real needs of the national economy. The NEB will be the instrument by which the Government ensures that the nation's resources are deployed to the benefit of all, by extending public ownership into profitable manufacturing industry in accordance with the policies defined in paragraphs 20 to 23 below.

20. Acquisitions by, or on behalf of, the NEB may take place in a number of ways. Wherever possible, companies will be wholly acquired by agreement. Minority holdings in companies may be acquired in future in return for assistance from the Government under the Industry Act and these will normally be held by the NEB. The Board may also acquire part holdings in companies through joint ventures or through its participation in a reorganisation. But to act decisively in its role of creating employment and creating new industrial capacity, the Board will need a number of companies where it holds 100 per cent of the equity capital, in order to avoid conflict between its objectives and the interests of private shareholders. When a company is provided with special regional assistance, it is not intended that the NEB should on that account alone take a shareholding in the company. The Government consider that suitable categories of firms for acquisition include those where there is a danger of a British company passing into foreign control; and sectors where acquisition by the NEB would stimulate competition where this is now weak.

21. The main thrust of the Government's proposals for extending public ownership will follow the programme set out in its Election Manifesto. The Government will soon publish their proposals for development land. Plans have already been announced to establish a British National Oil Corporation which will safeguard the country's stake in oil from the Continental Shelf and to take the shipbuilding industry into public ownership. The aircraft industry will also be nationalised and the Government's proposals for it will be published separately. Outside manufacturing, the Government plan to extend the public sector in the road haulage industry and to establish a vigorous, competitive public sector in the construction industry. They are also preparing a fully comprehensive scheme for bringing commercial ports and cargo-handling activities under public ownership and control. For the ports, a new National Ports Authority, separate from the NEB, will be established, with powers of control and co-ordination.
22. Although the NED will be principally concerned with profitable companies, it may on occasion be called on to take over an ailing company which is in danger of collapse but needs to be maintained and restored to a sound economic basis for reasons of regional employment or industrial policy. This responsibility of the NED will be distinct from its other functions, and will be separated in such a way from them that the NED will be compensated specifically for this rescue activity, to ensure that its overall financial discipline is not undermined. The Board may also be asked to act in support of financial measures by the Secretary of State for Industry to assist a company in temporary difficulty, for example by providing managerial reinforcement.

23. The preceding paragraphs represent the Government’s policy towards public ownership for the next Parliament. If unforeseen developments require further proposals to be framed, the Government would bring them before Parliament and any compulsory acquisition would require a specific Act of Parliament. In circumstances of compelling urgency the Government would bring the issue before Parliament and any action would require specific Parliamentary approval. If any compulsory acquisition proved to be necessary it would be subject to prompt and fair compensation to existing shareholders.

THE OFFICIAL TRUSTEE

24. The Government wish however to retain other means of dealing with factory closures in the private sector on those occasions when, for social and economic reasons, it is desirable to find some way of keeping a plant in operation while Government Departments and other interests concerned consider whether a permanent solution to the resulting problem can be found. To supplement the powers that already exist under Sections 7 and 8 of the Industry Act, which enable financial assistance to be provided in order to sustain productive capacity, it may therefore be desirable to provide for the intervention of a Government Manager or Trustee who would take over temporary responsibility for handling the crisis. But such a proposal inevitably raises difficult issues of company law and will need further study before decisions can be taken by the Government.
CREATING JOBS

25. The Government recognise the importance industry attaches to stability and certainty in financial incentives to stimulate industrial and commercial expansion in areas of high unemployment. They therefore propose to maintain the present broad framework of measures introduced in the 1972 Industry Act. But the experience of the last 25 years shows that financial incentives are by themselves inadequate: the Government need a power of direct action and the National Enterprise Board will therefore have a responsibility to create employment through commercially sound public enterprises and joint ventures with private enterprise in the areas of high unemployment. Its subsidiary companies will qualify for financial assistance under the Industry Act on the same terms as comparable companies in the private sector.
26. The National Enterprise Board will be funded by the Government and the Secretary of State for Industry will be empowered, with the approval of the Treasury, to make funds available by way of loans or in the form of public dividend capital. This is capital which does not bear a fixed rate of interest, but on which a public corporation is expected to pay a dividend similar to dividends on equity shares in private companies. Since the NEB will be competing with the private sector and is intended primarily to operate within profitable sectors of manufacturing industry, it is appropriate that a part of its funds should have the character of equity rather than of fixed interest finance.

27. The Board will be a source of finance for the companies in which it holds shares and for any new public enterprise which it establishes as envisaged in paragraph 16. The NEB's internal financial relationships with its subsidiary companies will be for it to settle with them. The NEB will be given financial obligations which reflect its duty of securing the efficient management in the public interest of the companies vested in it. Detailed financial guidelines for this purpose will be prescribed by Government.

RELATIONS WITH THE GOVERNMENT

28. Within the framework of its constitution and the funds made available to it, the NEB will be free to exercise its commercial judgement in carrying out the functions described in paragraph 13 above. It will however require the prior agreement of the Government before it takes a controlling interest in any enterprise or a minority interest exceeding £5 million. The
policy objectives to which the NEB will be required to contribute are so wide ranging that it would be unrealistic to try to enshrine them rigidly in an Act. There will also be occasions when the Government will wish to influence the activities of the Board and its constituent companies in the national interest. The Government will therefore need a power to give general and specific directions to the Board. The Government will not however interfere in detailed issues of day to day management. Directions to the NEB will have to be given in writing by the Government and will be published in due course in the Board's annual report.

PARLIAMENTARY CONTROL

29. The NEB will be set up under a new Industry Bill which will consolidate and develop existing legislation to promote national industrial expansion. The Board will be accountable for its actions to the Government who, in turn, will be fully accountable to Parliament for the Board's expenditure. In addition, the Board will produce an annual report and accounts which will be laid before Parliament and its activities, like those of any other major public sector body, will come under review by the appropriate Parliamentary Committee.

30. The Government already have powers under Sections 7 and 8 of the Industry Act 1972 to provide financial assistance to a company by taking share capital. These powers of agreed share purchase will be widened and made permanent. The Government propose that Parliamentary control of this extended power should be on the lines of Section 8 of the Industry Act, i.e. expenditure on a single acquisition in excess of £5 million should be authorised by Resolution of the House of Commons under main legislation which provides the means by which this is to be done.
31. In Scotland, the Government have announced their intention to introduce legislation setting up a Scottish Development Agency, responsible to the Secretary of State, which will be given a substantial measure of responsibility for the promotion of industrial and economic development.

32. The Government consider that the most effective assistance and support for the modernisation and growth of Scottish industry will be achieved by giving the Scottish Development Agency executive responsibilities over a wide field. It has therefore been decided that appropriate functions of the NEB should be carried out in Scotland by the Scottish Development Agency, and that the Agency should be fully associated with the Board in consideration of matters of relevance to employment and economic growth in Scotland. Comparable arrangements will be made in Wales and, as appropriate, in Northern Ireland.
PLANNING AGREEMENT PROCEDURE

1. A Planning Agreement will not be an agreement in the sense of a civil contract enforceable at law. It will, instead, reflect the outcome of discussions between a company, the unions and the Government during the course of which it is hoped that agreement will have been reached about the shape and direction of the company's plans and their relationship to the Government's economic objectives. The kind of information which each company is asked to provide will aim to reflect that company's own planning system and its accounting arrangements. In companies with effective corporate planning arrangements the normal pattern is for plans to be revised annually and rolled forward for a further year. At the same time account is taken of the extent to which the company has succeeded in achieving its planning objectives in the past year.

2. The Government have it in mind that Planning Agreements should take account of this approach: companies would be asked to provide the appropriate Government Department and unions with information of 3 main kinds. First, there would be information relating, perhaps, to the 2 or 3 years immediately past. In the early stages, while experience of Planning Agreements was being built up, it would obviously be helpful if this material could be provided somewhat in advance of information about future plans so that the Government Department concerned could familiarise itself with the company's situation in preparation for the forthcoming discussions.

3. Second, companies might be asked to provide forecasts relating to the topics to be covered by an Agreement and looking up to 3 years ahead. They could also be asked to give an indication of any longer term plans which they might have which would be likely to affect the main development of the company or its pattern of investment, employment or trading activity. Third, the company would as a separate matter be asked to keep the Department in touch with any intended major departures from its plans as and when they arose.

4. The period to which the Agreement related would also reflect the circumstances of the individual company. In some cases the intentions about the future may be so firm, eg in relation to a major new development project, that it would be possible to reach agreement which might be expected to
continue for 2 or 3 years with little or no need for change. On the other hand, and it may well be more commonly, a company might have a set of plans about the future which were constantly being revised as external circumstances changed. In that event it might be more appropriate to have what would in substance be a rolling Agreement relating to the 3 year forward period and renewed annually with whatever changes to past expectations circumstances might be agreed to require.

5. As paragraph 2 of the White Paper describes, Planning Agreements would provide the context within which to determine the need for selective financial assistance. Moreover, when an Agreement was concluded the projects to which it related would qualify for regional development grant at not less than existing rates for 3 years.