CABINET

THE REGENERATION OF BRITISH INDUSTRY

Note by the Secretary of State for Industry

For the information of my colleagues I am circulating with this note a copy of the White Paper on The Regeneration of British Industry which will be published at 10.30 am on Thursday 15 August.

A W B

Department of Industry

14 August 1974
The Regeneration of British Industry

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Presented to Parliament by the Secretary of State for Industry by Command of Her Majesty 15 AUG 1974

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HER MAJESTY'S STATIONERY OFFICE

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INTRODUCTION

1. Britain's prosperity and welfare depend on the wealth generated by its industry and all those who work in it. It matters vitally to all of us that British industry should be strong and successful. We need both efficient publicly owned industries, and a vigorous, alert, responsible and profitable private sector, working together with the Government in a framework which brings together the interests of all concerned: those who work in industry, whether in management or on the shop floor, those who own its assets, and those who use its products and depend upon its success.

2. Since the war we have not as a nation been able — for a variety of reasons, social, economic and industrial — fully to harness the resources of skill and ability we should be able to command. We have been falling steadily further behind our competitors. We have not found the self-confidence to bridge that gap; and as it widens, the investment and new industrial relationships that we need if we are to maintain our living standards become progressively more difficult to secure.

3. In 1971, investment for each worker in British manufacturing industry was less than half that in France, Japan or the United States, and well below that in Germany or Italy. In spite of the measures to encourage investment taken since then, it has still lagged behind; indeed, it was significantly less in 1972 and in 1973 than it was in 1970. Moreover, when it comes to making effective use of our manufacturing equipment, we are less successful than most of our competitors. Because there has not been the demand for investment in manufacturing industry here, funds that could have been used to improve and modernise British industry have been deployed elsewhere. In the last ten years the rate of direct investment by British firms overseas has more than trebled.

4. Successive Governments have striven to correct these deficiencies, both by general economic measures and by various forms of assistance to industry. But the attitude of Governments to industry, and indeed of industry to Governments, has been too remote, too much coloured by the concept that the Government's main function towards industry is that of regulation to prevent the activities of industry, or the abuse of its powers, damaging the interests of other sectors of the community. That relationship is no longer enough. Industry and the Government should also be partners in the pursuit of the objectives which spell success for industry and prosperity for this country. This requires a closer, clearer and more positive relationship between Government and industry; and the construction of that better relationship requires the development of new institutions. This White Paper sets out the Government's proposals for achieving these results.
5. The Government's main proposals for extending public ownership were set out in the manifesto on which the Labour Party fought the last General Election, and are now being presented to Parliament and the public in greater detail. They include proposals for community ownership of development land, the establishment of the British National Oil Corporation, the nationalisation of the shipbuilding and aircraft industries, the extension of public ownership in the road haulage and construction industries, and schemes for bringing commercial ports and cargo handling activities under public ownership and control.

6. In pursuit of the more general objectives for the relationship between Government and industry which have already been described, the Government propose in this White Paper the creation of two new instruments: a system of Planning Agreements with major firms in key sectors of industry, and a National Enterprise Board to provide the means for direct public initiatives in particular key sectors of industry.

7. Planning Agreements will bring about a closer understanding between companies — workforce as well as management — and the Government on the aims to be followed and the plans to be adopted in pursuit of them. They will not only help to ensure that the plans of companies are in harmony with national needs and objectives; they will also provide a securer and more coherent basis than has existed in the past for ensuring that Government financial assistance is deployed where it will be most effectively used. A fuller exchange of information will be an essential ingredient in Planning Agreements; the information which companies provide in this context will be used for this purpose only.

8. The National Enterprise Board will take over the ownership of the shares that the Government now hold in a number of companies. It will be a new source of investment capital for industry, able to provide capital by loan or acquisition of shares — though the general rule will be that, where the Board provides such capital, it should take a proportionate share in the ownership of the firm. It will act as the agent of the Government in the efficient restructuring of industry. It will be able to channel grants to companies in difficulties. In all its activities it will pay close attention to regional development opportunities. For many of its activities the Board will be able to follow the pattern and build on the experience of the former Industrial Reorganisation Corporation.

9. These proposals will be presented to Parliament in a new Industry Bill; and, as the need arises, appropriate changes will be proposed in company law. In the meantime, the Government's intentions are more fully set out in the rest of this White Paper, so that the private sector of industry will know where it stands and can press ahead with its own plans for development.

10. The Government believe that this new initiative will contribute to the achievement of greater industrial efficiency, more and better investment, and a higher return on that investment. By thus entering into explicit partnership with industry, the Government expect to raise the quality of management, develop industrial democracy, and improve both the quantity and the quality of manufacturing industry's contribution to the development and growth of the economy on which the prosperity of all of us depends.
PLANNING AGREEMENTS

11. 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.

12. 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, with special reference to selective assistance for new employment projects in the regions. 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 capital allowances, 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 1972 now provides. They 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 National Enterprise Board, 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.

13. Financial assistance under the Industry Act 1972, including regional development grants, 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 payment of regional employment premium and capital allowances will not be affected by any of these proposals.

14. The principal application of Planning Agreements will be to large companies, but in times of economic difficulty it is often the small businessman, dependent to a great extent on personal wealth as a source of finance, who suffers the greatest hardship. The Government are therefore reviewing the problems of small businesses and will put forward separate proposals to cater for their special needs.
15. 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;
- Prices policy;
- 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.

16. 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 will benefit the companies taking part and will lead to better arrangements for the management of the economy.

Companies to be Covered

17. 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 only in respect of their British holdings. It will not however 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 without delay the plans that are put to them. 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. They will introduce Planning Agreements in selected sectors of particular importance, beginning with companies in sectors which, like the engineering industry, lie at the heart of our export effort.

18. The major nationalised industries and publicly-owned firms will also fall within the scope of the Planning Agreements system, which for them 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 the Government, and by which Departments monitor their progress at regular intervals against an annual operating plan.

The Interests of Employees

19. 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 from the firm. The framing and updating of Agreements will thus involve a continuing discussion between management and unions and will constitute an important advance in the part to be played by industrial democracy in the planning of company strategy. The Government 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.

20. 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 will 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

21. 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 is to look for arrangements which are simple and flexible and based so far as possible 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

22. 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.
23. 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).

24. 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. Adequate funds will be made available to enable the Board, subject to Governmental and Parliamentary control as set out in paragraphs 38-40, 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 27).

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 28).

c. It will act as a holding company to control and exercise central management of:
   i. certain existing Government shareholdings vested in it;
   ii. interests taken into public ownership under powers in the Industry Act 1972, which it is proposed to consolidate and extend;
   iii. new acquisitions under the arrangements described in paragraphs 30-33.

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 32).

e. It will be an instrument through which the Government operate directly to create employment in areas of high unemployment (see paragraph 35).

f. Government Departments, the nationalised industries and private firms will be able to seek the advice of the NEB on financial and managerial issues.
g. Its main strength in manufacturing will come through the extension of public ownership into profitable manufacturing industry by acquisitions of individual firms in accordance with paragraphs 30-33 below.

h. It will have power to start new ventures and participate in joint ventures with companies in the private sector.

25. 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

26. The Government envisage 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

27. Within the framework of Governmental control outlined below (see paragraph 38), 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 priority 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

28. In exercising its powers to promote or assist in the reorganisation or development of an industry the Board may take a 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 1972.

Vesting Existing Government Shareholdings

29. 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 (the British Petroleum Co. Ltd., 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 and Elliott Ltd.
Kearney and Trecker Marwin Ltd.
Norton Villiers Triumph Ltd.

Future Acquisitions

30. The NEB will be the instrument by which the Government ensure 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 31-33 below.

31. Acquisitions by, or on behalf of, the NEB may take place in a number of ways. The intention is that all holdings in companies, whether 100 per cent or in part, should be acquired by agreement. Where part holdings in companies may be acquired in future in return for assistance from the Government under the Industry Act 1972 they 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. The Government consider that suitable criteria for the acquisition of a company should include the following: danger of its passing into unacceptable foreign control; and stimulation of competition in a sector where that is weak.

32. Although the NEB 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 NEB will be distinct from its other functions, and it will be separated in such a way from them that the NEB will be compensated specifically for this rescue activity, to ensure that its overall financial discipline and viability are 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.

33. Together with the separate proposals in paragraph 5, the preceding paragraphs represent the whole of the Government’s policy towards public ownership for the next Parliament. If in any case compulsory acquisition
proved to be necessary, this would normally be authorised by a specific Act of Parliament. If unforeseeable developments of compelling urgency were to arise—for example, the imminent failure or loss to unacceptable foreign control of an important company in a key sector of manufacturing industry—the Government would bring the issue before Parliament, and any action would require specific parliamentary approval. Compulsory acquisitions would be subject to prompt and fair compensation to existing shareholders.

The Official Trustee
34. 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 and in what manner a permanent solution to the resulting problems can be found. To supplement the powers that already exist under Sections 7 and 8 of the Industry Act 1972, 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
35. 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. 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 on its behalf 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 1972 on the same terms as comparable companies in the private sector.

Financial Arrangements
36. 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.

37. As envisaged in paragraph 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. 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 the Government.

Relations with the Government

38. 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 24 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. 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

39. 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 funds which it makes available to the Board. 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.

40. 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.

Scotland, Wales and Northern Ireland

41. The Government have announced their intention to introduce legislation setting up in Scotland 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.

42. 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. Similar arrangements will be made for Wales, on the basis envisaged in the Secretary of State for Energy's Report to Parliament of 11 July 1974 about United Kingdom off-shore oil and gas policy. Industrial development in Northern Ireland is a transferred matter under the Northern Ireland constitution, and the relationship between the NEB and the Northern Irish authorities is under consideration.
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 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 reflect this approach: companies would be asked to provide the appropriate Government Department and unions with information of three main kinds. First, there would be information relating, perhaps, to the two or three 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 would be asked to provide forecasts relating to the topics to be covered by an Agreement and looking three years ahead. They would 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 Agreement itself would normally be for a period of three years, although it would be reviewed annually in the light of progress over the previous year and rolled forward for a further year.
PLANNING AGREEMENT PROCEDURE

A planning agreement will now be an agreement entered into for the building of a new contract or a new development. Instead, the Planning Agreement is only reached after discussions between the company, the developer, and the Government. During the course of the discussions, it is hoped that agreement will have been reached about the scope and conditions of the agreement. If not, the agreement will be put to the company and the developer for approval. The final agreement will then be signed by the appropriate Government Department.

The Government expects to provide a complete description of the Government Department's services for the planning of new developments. They will be asked to give an indication of what they might have included in the description of their services. If they do not, the Government Department will be expected to provide a description of the services that they will be able to offer in the future.

The Agreement will normally be for a period of three years, although it may be renewed annually in the event of progress. Over the period, the company will be required to meet their planning objectives in the light of any changes that may occur.

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