



PRIME MINISTER

NATIONALISED INDUSTRIES: CURRENT COST ACCOUNTING

At the meeting of E(EA) on 13 November, we considered a paper from the Chief Secretary about the introduction of current cost accounting in the nationalised industries. I need not trouble you with the detail of the discussion (which is set out in the minutes: E(EA)(79)20th Meeting, Item 1). But you may like to know that the Sub-Committee broadly approved a move to inflation accounting in the nationalised industries on the lines suggested by the Accountancy Profession in their recent Exposure Draft. Some adjustments will be needed to fit these proposals to the special circumstances of nationalised industries.

The important political point is that, although the Treasury proposals will somewhat reduce the published profits of nationalised industries, they will not, of themselves, have any effect on prices. Our pricing decisions in the main industries are either determined by the market, or are set by reference to longer-term economic criteria, including our energy conservation policy and the need to earn a proper return, in real terms, on the nation's investment in these industries. The way in which we present the results is an important but secondary issue, which does not affect the prices they will charge to their customers.

/I am ...

*Agreed
ms*

*Prime Minister - Don't think
I think this is sensible:
it should put more pressure
on the nationalised industries
to improve efficiency and
it will not mean higher
prices.*

*12
16/11*



I am reporting this discussion only because it may be of some political interest, and we may come under attack from the Opposition for making these changes. However, I am satisfied that we have a reasonable defence, on the lines indicated above. The next steps will be for the Chief Secretary, Treasury to discuss these proposals with the Nationalised Industry Chairmen. He does not expect any serious opposition.

I am sending copies of this minute to the other members of E(EA) and Sir Kenneth Berrill and Sir Robert Armstrong.

KJ

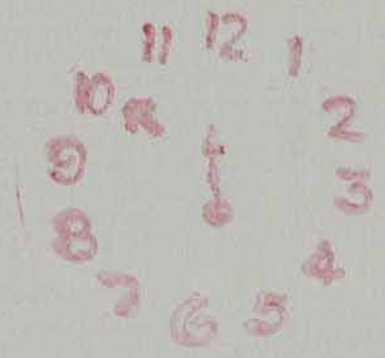
K J

15 November 1979

Department of Industry
Ashdown House
123 Victoria Street



15 NOV 1979



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