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PRIME MINISTER

Nationalised Industries' Contribution to Public
Expenditure 1981-82 to 1983-84
 (E(80) 104)

BACKGROUND

The paper by the Chief Secretary is in part a background to the Committee's discussions of steel, shipbuilding and rail and in part a call for further action on the other nationalised industries in order to eliminate the excess still remaining.

2. The overall position, in terms of additions to present public expenditure provision, is summarised in paragraph 12 of the paper. You will recall that in the discussions last July of the nationalised industries and of public expenditure it was assumed:-

- (i) that the non-loss makers would require net additional finance, mainly because of gloomier assumptions on their market prospects; and
- (ii) a further £470 million finance each year would have to be offset by savings on other public expenditure programmes.

The present table:-

- (iii) takes credit for reductions subsequently agreed for the Post Office; and
- (iv) assumes that the NCB and British Rail will find means to eliminate all their excess requirements, except for £50 million for British Rail in 1981-82; makes no provision for British Shipbuilders in 1982-83 and 1983-84; and, for British Steel, draws on the very provisional figures in Annex 2 of E(80) 102.

3. After allowing for these changes there remains an excess of:-

	<u>£million 1980 prices</u>		
	1981-83	1982-83	1983-84
	413	166	200

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To the extent that this is not eliminated by cuts on the nationalised industries it will have to be offset by yet further cuts on other public expenditure programmes. The Chief Secretary proposes therefore that it should be found from the option cuts listed in table 2 attached to his paper and that, insofar as these cuts are not forthcoming, the balance should be found by an across-the-board investment cut.

HANDLING

4. The Chief Secretary may wish to refer briefly to this paper at the beginning of the meeting in order to set the tone for discussion of the three particular loss-making industries. The Committee can then return to it at the end of the meeting in order to take decisions on the remaining excess in the light of the progress on the particular industries.

5. After the Chief Secretary has introduced the paper each of the sponsoring Ministers will wish to comment - the Secretaries of State for Industry ^{Sub | Dist Ship} and for Trade, the Minister of Transport and Mr. Lamont and Mr. Fletcher.

6. In discussion the main questions are:-

- (a) Do Ministers agree that any remaining excess should be eliminated by offsetting measures within the nationalised industry programme?

If this is not done, and overall public expenditure is not to be increased, the savings will have to be found from other public expenditure programmes which are already under heavy pressure. Moreover, the Government will be vulnerable to criticism of failure to turn the finances of the nationalised industries round as assumed in the last Public Expenditure White Paper. Notwithstanding this, nationalised industry sponsoring Ministers may well protest against the possibility of further across-the-board investment cuts and point to the implications for employment and productivity. They might also be tempted to argue that the present assumptions could well prove wrong. On the other hand, while it is true that they are on a highly uncertain base, it would be imprudent to assume now that they are over-optimistic.

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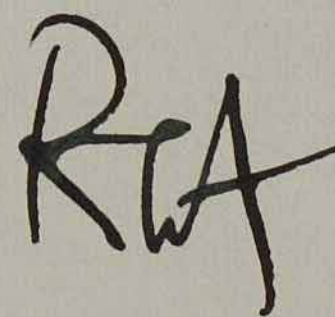
(b) If so, how should it be done?

Table 2 of the Chief Secretary's paper identifies a number of option cuts, and in the two later years these would be more than enough in total to offset the excess. However, I understand that so far in bilateral discussions the Chief Secretary has not secured all that he needs. If the Committee agree with the overall objective of eliminating the excess, the next step might be for officials to agree, in the further discussions on the 1981-82 EFLs, how the balance should be found. The Chief Secretary could deal bilaterally with Ministers on any difficulties and he is due to report in late October with his proposals for the 1981-82 EFLs. He could also report on how the excess for the two later years will be found.

CONCLUSIONS

7. In the light of the discussion, and with reference to paragraph 19 of the Chief Secretary's paper, you will wish to record conclusions:-

- (i) on whether the objective should be for the remaining excesses to be offset by measures within the nationalised industry programme;
- (ii) agreeing that the savings should be found by a combination of option cuts and across-the-board savings and inviting the Chief Secretary to report the outcome for 1981-82 in the context of his proposals for EFLs for that year and, separately, for the two later years.



(Robert Armstrong)

16th September 1980