cc Mr Hoskyns
Mr Ingham

Prime Minister 2
Simply to note. (The Treasury have conceded in line with the views expressed in Cabinet: a pity in the light of this afternoon's sombre discussion.)
TL 9/11

PRIME MINISTER

NATIONALISED INDUSTRIES: EXTERNAL FINANCING LIMITS

At the meeting of Cabinet on 1 November (CC(79)19th), I was asked to agree with the other Ministers concerned revised external financing limits for 1980/81 for British Rail, National Bus Company and British Airways. This minute sets out the figures which we have since agreed. These revised limits, together with the limits already agreed for the other industries, including the energy industries, can be accommodated within the total in last week's White Paper.

British Rail and National Bus Company

2. Having discussed the options open to British Rail with Norman Fowler, I have accepted his case for a limit in 1980/81 higher than that proposed in the Chancellor's paper (C(79)48). This recognises the limited room for manoeuvre open to British Rail on wages and fares as well as the impact on their business results of lower economic activity and reductions in support for the passenger railway. Norman Fowler represented to me strongly the importance of a realistic cash limit in retaining the commitment of the management to the cash limit system.

3. He also reaffirmed his acceptance of the volume financing figures agreed for the later years and the need to ensure that British Rail takes the necessary steps to keep within these, which will demand very considerable efforts on their part. In these circumstances, we agreed that a limit of £750 million for 1980/81 - some £40-50 million less than British Rail would have liked - would be appropriate.

4. The position on National Bus Company (NBC) is similar and I have accepted Norman Fowler's proposal of an £85 million limit for NBC in 1980/81. Here too considerable effort will be needed to keep to the agreed figures for later years. We have therefore asked our officials to discuss with both industries their plans for that period.

British Airways

5. After a discussion with John Nott I have come to the conclusion that it would be reasonable to set a limit on external financing of £230 million for British Airways, rather than the £205 million implied by the revaluing of the review figures after an option cut of some £50 million (at outturn prices). We shall still have secured half of our previously proposed cut, in the face of a severe deterioration in the immediate prospects for the whole airline industry. John Nott feels that to set any lower limit would run a real risk of precipitating either costly industrial trouble (even the £230 million figure assumes that real unit labour costs will fall), or the need to sell newly-delivered aircraft, and that this could well prejudice our plans for selling shares in British Airways and provide a source of potential embarrassment for us, during the passage of the Civil Aviation Bill. He will, however, expect the airline to keep to its plan to include a five per cent staff reduction as part of the settlement for the coming pay round.

6. I am sending copies of this minute to Cabinet colleagues, Norman Fowler and Sir Robert Armstrong.

WJB

JOHN BIFFEN
9 November 1979