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## CABINET

## NATIONALISED INDUSTRIES' INVESTMENT AND FINANCING

Memorandum by the Chief Secretary, Treasury

1. On 13 September (CC(79) 15th Conclusions, Minute 7) the Cabinet endorsed the general conclusions of the Chancellor of the Exchequer's paper C(79) 37 and asked me to report back the results of bilateral discussion of the outstanding issues.

2. Because of the timetable I am having to report before decisions have been taken on the Secretary of State for Energy's proposals for a phased removal of under-pricing of electricity and gas, which I strongly support as the minimum.

3. The figures in this paper represent nationalised industries' net borrowing from all sources (including leasing) which constitutes their contribution to the public expenditure planning total. They exclude grants (mainly for rail, coal and shipbuilding), which fall into other programmes, and are covered in decisions on those programmes. For convenience, however, increases in coal grants above the level provided in Cmnd 7439 are dealt with here. The figures here are not comparable with those for each industry's external financing limit. On the assumption that the electricity and gas pricing proposals are accepted, the position is as follows:

	£ million at 1979 Survey prices		
	1981-82	1982-83	1983-84
Borrowing	693	93	-573
Additional coal grants	95	20	-
TOTAL (rounded)	800	100	-550
Higher (or lower) than proposals in C(79) 37	500	-50	-400

The figures allow for a standardised shortfall of £400 million a year. They do not allow for the effects of the disposal programme which will be treated separately in the White Paper about the later years. The annex gives details of the comparison with C(79) 37 and of the figures for individual industries.



4. There is a sharp contrast between the beginning and the end of the period. For 1981-82 the financing figures are about £500 million higher than proposed in September. Most of this is due to the energy industries and the Post Office, but the figures for British Aerospace (BAe), which of course relate to the unlikely contingency of the Corporation remaining in the public sector, allow for continuation of the BAe 146 project. For 1982-83 the figures are £50 million below the levels we aimed at. On the other hand for 1983-84 we have a prospect of making greater savings than I originally proposed.

5. If the Secretary of State for Energy's proposals were not accepted, sums of the order of £600 million would be at stake by 1983-84. The result would be an even greater problem in 1981-82 and a reduction of the further savings in 1983-84.

6. I should stress that some of these figures are based on stringent policy assumptions about the attainment of viability by such industries as the Coal Board, British Steel and British Shipbuilders, as well as sustained progress by the railways in tackling their problems and a steady move to get rid of under-pricing particularly of gas and electricity. Moreover, there must be a risk that the economy will not develop as favourably as some of the industries have been assuming, and this could add to their prospective external financing needs. In other words, the figures assume success and are to that extent distinctly optimistic.

#### CONCLUSION

7. We shall need to consider whether to adopt these figures for the second White Paper on Public Expenditure in the light of the decision about energy pricing. On the assumption that the Secretary of State for Energy's proposals are accepted, I recommend that they should be adopted, subject to two reservations. First we shall need to consider nationalised industries' financing in the light of the total public expenditure figures for 1981-82 and later years. Second, we should emphasise in public presentations the provisional character of these figures, which, because they represent the difference between much larger flows of revenue and expenditure, are likely to fluctuate much more than the costs of implementing plans for the public services. They will need to be rigorously reappraised in next year's Investment and Financing Review, in the light of the more cautious assumptions the industries are likely to make about the prospects for economic growth; the case for each industry's investment plans will require very careful scrutiny. Meanwhile - and subject to this second reservation - sponsor Departments should be permitted to authorise up to 85 per cent of the investment programme in 1981-82 and 70 per cent in 1982-83.

J B

Treasury Chambers

30 October 1979



	Treasury Proposal in C(79)37			Latest Position			Gap (Improvement-)		
	1981-82	1982-83	1983-84	1981-82	1982-83	1983-84	1981-82	1982-83	1983-84
National Coal Board	305	276	232	400	393	319	95	117	87
Electricity Council & Board	-48	43	168	-18	-99	-222	30	-142	-390
N.Scotland Hydro Elec Board)	81	139	123	90	155	170	9	16	47
S.Scotland Elec Board )									
British Gas Corporation	-496	-694	-880	-200	-380	-630	296	314	250
British National Oil Corporation	-72	-114	-162	-70	-190	-250	2	-76	-88
British Steel Corporation	170	-	-	170	-	-	-	-	-
Post Office	-46	-99	-250	71	-38	-180	117	61	25
British Airways Board	90	147	149	90	147	149	-	-	-
British Airports Authority	-	-4	-20	-	-4	-20	-	-	-
British Railways Board	30	1	-6	30	1	-6	-	-	-
British Transport Docks Board)									
British Waterways Board )									
National Freight Corporation )	8	11	16	8	11	16	-	-	-
National Bus Company )									
Scottish Transport Group )									
British Aerospace	46	32	27	70	72	67	24	40	40
British Shipbuilders*	39	8	2	52	25	14	13	17	12
Total borrowing	107	-254	-556	693	93	-573	586	347	-17
Shortfall	-350	-150	-100	-400	-400	-400	-50	-250	-300
Additional coal grants	150	150	100	95	20	-	-55	-130	-100
TOTAL	-93	-254	-556	388	-287	-973	481	-33	-417

\*These figures may be adjusted to take account of decisions to be taken on the level of intervention fund grants with no implications for public expenditure as a whole.