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10 September 1979

CABINETNATIONALISED INDUSTRIES INVESTMENT AND
FINANCING REVIEW: 1981-82 TO 1983-84

Memorandum by the Chancellor of the Exchequer

1. When we discussed the nationalised industries investment and financing review (C(79) 28) in July (CC(79) 10th Conclusions, Minute 4 and CC(79) 11th Conclusions), we took decisions on the figures for 1980-81 but left over the figures for later years. This note recalls the later year figures, including the options put forward in the investment review (subject to some amendments to take account of subsequent developments particularly in relation to steel and shipbuilders), and seeks decisions on them in the light of our overall public expenditure objectives.

2. Tables 1 and 2 attached show, respectively, the industries' bids for their borrowing and the options we are putting forward for reducing the bids. The agreed figures for 1980-81 are shown as well as the figures for decision on the later years. Table 3 shows the increases compared with Cmnd 7439 and the figures resulting from the exercise of the full options set out in Table 2.

Table 3

	1980-81	1981-82	1982-83	1983-84
Cmnd 7439	750	700	700	700
plus: Additional bids:				
borrowing (adj. for changes in shortfall)	230	200	300	350
NCB grants	130	150	150	100
Total bid	1110	1050	1150	1150
less: Options	740	1100	1400	1700
Revised total	380	- 50	-250	-550

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The resulting levels of nationalised industry borrowing can be compared with the figures in earlier years as follows:

1977-78 (outturn)	1978-79 (estimated outturn)	1979-80 (estimate)
771	1132	737*

*Figure in Table 1. The industries' latest forecasts exceed this total, mainly on account of the Post Office's billing backlog. The implications for cash limits are being examined.

3. As Table 3 shows, the options proposed should result in large reductions in the level of nationalised industry borrowing, to the extent of moving from a substantial borrowing figure to a substantial net repayments figure by the end of the period. In view of the nature of the figures (which represent the difference between the very large flows of the industries' revenue and expenditure) it is not meaningful to make a direct comparison with the reductions proposed for other spending programmes; but it is clear that the options, if achieved in full, will result in an important contribution by the nationalised industries to our public expenditure objectives.

4. I recognise that the nationalised industries' figures are subject to particular uncertainties, and that some industries may want to adjust their bids in the light of more pessimistic economic forecasts than those prevailing when the present bids were prepared. But the overall public expenditure position makes it imperative that we should press the industries for the maximum possible contribution, and to keep to the financing figures in Table 1 adjusted to take account of decisions on options.

5. As to the detailed figures, those for coal will need to be settled in the light of the proposals the Secretary of State for Energy is to make in the context of the follow-up to the recent review of the coal industry; meanwhile Table 2 incorporates the option reductions previously envisaged for 1981-82 and subsequent years. The options figures for shipbuilding incorporate Ministers' July decisions. The options figures shown for steel are consistent with a cash limit of £450 million at current prices for 1980-81, as proposed by the Secretary of State for Industry, and a limit of about half as much in 1981-82. For the last two years of the period the figures assume that the industry will be able to meet its financing requirements from internal resources, as the Secretary of State has proposed to the Corporation.

6. Because the options recorded here for steel and shipbuilding are larger than the notional figures included in the earlier presentation of the results of the Financing and Investment Review (C(79) 28), the total of the options now is greater than before. In order to make some allowance for the deterioration in nationalised industries' prospective financial position since the base-line figures were prepared, I have scaled down the allowance for shortfall in the later years, so that the net figures in Table 3 (ie, base-line figures less options) are the same as we had in July. This would enable us to contemplate some very limited upward adjustments later to the external financing for individual industries without these invalidating the overall public expenditure position as shown in C(79) 35.

CONCLUSION

7. Given the need for substantial reductions in the public expenditure plans we have inherited, as explained in C(79) 35, it is essential that the nationalised industries be pressed to make the maximum possible contribution. Subject, therefore, to the particular points set out in paragraph 5 above, I recommend my colleagues to endorse all the options set out in Table 2 of this paper. To the extent that the industries find that their prospects for generating internal funds are less good than they expected when the financing figures in this paper were prepared, we should tell them that the presumption must be that they will find ways through adjustments to prices, costs and investment programmes of staying within the external financing limits we are now contemplating.

	54	57	91	187	75
	-409	-142	-78	-169	-160
	403	175	28	34	37
	592	457	427	395	348
	-101	35	-46	-99	-208
	158	495	-150	187	149
	-1	31	13	41	5
	46	49	45	16	9
	-6	-7	9	-10	-11
	3	4	2	2	2
	18	14	14	13	13
Treasury Chambers	22	11	9	14	15
10 September 1979	1	3	3	3	2
	49	75	86	72	67
	102	108	125	132	100
	1107	1480	1230	1353	1135
	-100	-50	-350	-150	-100
	737	980	880	1003	1035
	-332	-232	-162	-200	-257

NATIONALISED INDUSTRIES: TOTAL NET BORROWING AND LEASING

£ million at 1978-79 prices

	1979-80	1980-81	1981-82	1982-83	1983-84
National Coal Board	414	409	400	416	427
Electricity Council and Boards	- 69	- 8	- 11	93	218
North of Scotland Hydro- Electric Board	36	20	5	- 2	-
South of Scotland Electricity Board	51	57	91	161	153
British Gas Corporation	-409	-142	- 78	-164	-160
British National Oil Corporation	103	175	28	- 14	- 37
British Steel Corporation	692	457	427	398	398
Post Office	-101	35	- 46	- 99	-205
British Airways Board	158	195	130	147	149
British Airports Authority	- 1	31	15	11	- 5
British Railways Board	46	49	45	16	9
British Transport Docks Board	- 6	- 7	- 9	- 10	- 11
British Waterways Board	3	4	2	2	2
National Freight Corporation	16	16	14	13	13
National Bus Company	22	11	9	14	19
Scottish Transport Group	1	- 3	- 3	- 3	- 2
British Aerospace	49	75	86	72	67
British Shipbuilders	182	106	125	102	100
	1187	1480	1230	1153	1135
Shortfall	-450	-500	-350	-150	-100
TOTAL	737	980	880	1003	1035
Change on Cmnd 7439	-332	+232	+162	+306	+337

TABLE 2 OPTIONS FOR REDUCTIONS

	£m at 1979 Survey prices			
	1980/81	1981/82	1982/83	1983/84
1. Coal - investment including pit closures	25	95	140	195
2. BNOC - reduced investment	75	100	100	125
3. Gas move to economic pricing (as already assumed for electricity)	260	380	480	670
4. Electricity (England & Wales) and Gas - unspecified current and capital savings	50	75	100	100
5. Scottish Electricity Boards - increase prices to economic levels plus current and capital savings	5	15	20	30
6. Transport industries - further miscellaneous savings: British Rail	15	15	15	15
Others	5	5	5	5
7. Airways - investment reductions	40	40	-	-
8. Airports - raise landing charges to economic levels	16	15	15	15
9. Post Office - capital and current savings	50	-	-	-
10. British Shipbuilders: savings from review	37*	86*	94*	98*
11. British Steel: savings from review	121	257	398	398
12. British Aerospace - cancellation of BAe 146	40	40	40	40
TOTAL	739	1123	1407	1691

*The options for BS may need to be revised when new figures for Intervention Fund grants (programme 4) are agreed in the light of decisions reached in the Shipbuilding Review.