

Not IndPRIME MINISTER

The Nationalised Industries: 1980 Investment and Financing Review
(E(80) 64)

BACKGROUND

The Chief Secretary's paper covers a report by officials summarising the main issues in the 1980 Investment and Financing Review. You do not need to look at the detailed annexes, which serve as a quarry for more detailed further work.

2. The Review is, as usual, presented separately from the main Public Expenditure Survey. It is the basis for three sets of decisions which will be taken between now and the Autumn:-

i. The aggregate external financing requirements borrowing and grants of the nationalised industries from 1981-82 to 1983-84 which form part of the public expenditure planning totals;

ii. the External Financing Limits (EFLs) for 1981-82 which will be negotiated and set in the Autumn with reference to the volume (1980 prices) figures determined in this exercise; and

iii. Approvals for capital investment commitments in the three years - NB. the capital investment, as distinct from the net financing requirement, is not an input to the public expenditure figures.

3. The provisional figures in the present review show a substantial and worrying increase over those assumed in the last Public Expenditure White Paper, Cmnd 7841. The details of the changes are set out in Table 2 on page 3 of the report by officials. In summary the position is:-

£ million 1980 Survey price.

	1981-82	1982-83	1983-84
Cmnd 7841	747	203	- 523
Now	1,220	619	77
Increase	+473	+416	+600



4. This deterioration arises for three main reasons:-

i. There are major uncertainties over the four loss-making industries - steel, shipbuilding, coal and rail. Pending reviews of these four to establish some realistic forecasts, these uncertainties cannot be resolved. But there is little doubt that the figures will be significantly worse than in Cmnd 7841 and, to cover this, credit is no longer taken for any of the £470 million shortfall allowance assumed for the nationalised industries in each year in the White Paper.

ii. In the other industries there are net changes with additional bids from the Post Office, the British Airports Authority and the British National Oil Corporation (low assumptions for North Sea oil output) and some offsetting reductions from electricity, airways and gas. But it is thought that the economic assumptions underlying these figures for these industries are on the optimistic side; and that reinforces the case for removing the £470 million annual shortfall provision.

iii. At the time of Cmnd 7841 it was assumed that British Aerospace would be privatised in 1980-81. Because of the current uncertainties over the timing of its flotation its external financing figures are now added back for each of the years - £108 million, £78 million, and £57 million respectively.

5. The Chief Secretary recommends that the Ministers concerned should bring forward papers as soon as possible on the four loss-makers. In the meantime he wishes to pursue the option cuts on the other industries set out in Table 3 on page 9 of the report by officials. These total:-

		£ million 1980 Survey price
1981-82	1982-83	1983-84
317-517	415-640	547-762

In the highly unlikely event of all these savings being realised they would more than offset the increases shown in the table in paragraph 3 above.

Insofar as these increases are not offset there will have to be savings in the departmental programmes covered by the main PES report. In the meantime the Chief Secretary's paper on the 1980 PES (C(80) 40), which will be discussed by Cabinet on Thursday assumes that it will be necessary to offset no more than the loss of the £470 million shortfall.

6. As soon as the volume figures for 1981-82 are settled, in the light of the reviews of the loss-makers and of decisions on the option cuts on the rest, there will be a basis for moving on in September/October to discussions of the 1981-82 EFLs. But this is not a question which the Committee has to discuss at this stage.

7. It would be customary to let the industries know in the summer what levels of investment they could commit for the three years ahead; and to give 100 per cent approval of the 1981-82 figures. But it will not be possible to give firm decisions for 1981-82 investment until after the Recess when the option cuts and the EFLs will be settled. In the meantime they will have to make do with the 85 per cent approval given last year.

8. Departments are not satisfied about the cooperation given to them by the industries in this year's review and some proposals for improvements are in paragraphs 16-17 of the report by officials. The Chief Secretary asks for agreement to pursue these further.

HANDLING

9. After the Chief Secretary has introduced his paper I suggest that you deal first with the two general recommendations in paragraphs 7(a) and (b) of his cover note -

- i. The commissioning of papers on the four loss-makers
The Secretary of State for Industry should undertake to report in September on steel and shipbuilding. He cannot do so any earlier because on both he needs the advice of the new Chairmen. The Secretary of State for Energy should be invited to put in a paper on

coal to E before the Recess; provisionally we have earmarked time for a meeting in the week beginning 21 July. The Minister of Transport should also report on rail, if possible before the Recess and at the latest in September. You might stress that it is extremely important to get on with these four reviews in order to get a clearer picture of the sums at stake, since these have a major impact on the main PES exercise.

ii. Improved arrangements for future reviews

Paragraphs 16-17 in the Report by Officials set out some ideas for improving the assessment of investment. There is no need to spend time at this meeting in discussing them. I suggest that you invite the Committee to agree that the possibilities for improvement should be pursued, and that the industries should be pressed to give their full cooperation. Insofar as this work needs to be monitored and discussed further, this could be done in the Chancellor of the Exchequer's ENF Sub-Committee.

10. You might then turn to the other industries and use table 3 on page 9 of the Report by Officials, which lists option cuts, as an annotated agenda. You might group the industries by their sponsoring Ministers. They can then in turn make any general points they wish on their industries, and either accept the cuts or agree to further discussions with the Chief Secretary on the basis, where necessary, of papers they would put to him in the first instance. The Committee might then invite the Chief Secretary to put in a further paper in September reporting those cuts which have been agreed and any outstanding issues which need to be resolved. Where the latter involve major policy questions the sponsoring Minister concerned should be ready to put in a paper himself.

11. I suggest that so far as possible the Committee should keep in play most, if not all, of the options. At the end of the day it may not be necessary to use them all. But in the meantime the possibility remains that further work on the loss-makers will reveal even greater increases than at present assumed. Sponsoring Ministers may argue that the investment of nationalised industries is different from that of Government Departments

in that it is commercial in character. There is some force in this. But the fact is that the borrowing of the nationalised industries is a part of the public expenditure planning total; and not all of their investment is commercially imperative. Private sector industry is subject to squeezes too and they have to sort out their priorities. Against this background you might then turn to the table of option cuts and to the sponsoring Ministers.

Secretary of State for Energy

12. For electricity and gas the assumption is that the industries will stick to the financial targets now set and make the associated price increases. There are two qualifications to this. Under Option 1(a) it is proposed that credit should be taken for real increases in tariffs after the present financial target expires in 1982-83. Under Option 3(a) industrial gas would be charged at full oil-related prices; though this would take BGC over their financial target and would bear hard on industrial costs.

13. The other energy cuts are on investment. Those on electricity - 1(b) and (c) - are relatively modest and should be negotiable. The Secretary of State for Scotland will wish to comment on the Scottish electricity cut. The investment cuts for BGC, involving the deferment of the development of the Morecambe Bay gas-field, and of BNOC investment are more contentious and the Secretary of State may want to bring forward papers on these possibilities following bilateral discussions with the Chief Secretary.

The Secretary of State for Industry

14. The Telecommunications options can be left for discussion under item 3 of the agenda when the Committee will be looking at the Secretary of State for Industry's separate paper (E(80) 65). The cuts on postal investment - option 8(c) - would affect postal mechanisation but should be manageable.

15. The British Aerospace figures are relevant only if flotation is delayed beyond 1980-81. Ministers could argue that these figures should not be in at all. The Chief Secretary can comment on this. But whatever view is taken of British Aerospace, the overall uncertainties on the nationalised industries' figures are such that it would be unwise at this stage to aim for a lower total of cuts on the grounds that British Aerospace could be excluded.

Secretary of State for Trade

16. The Secretary of State is in Nigeria and is represented by Mr Tebbit. He may argue that, if British Airways is to be privatised, there is no need for the Government to be concerned about cuts in its investment - option 6. The Chief Secretary will argue that there is scope for ordering fewer (American) aircraft; and that less forward capital commitments will make the Corporation a more saleable proposition.

17. A miscellany of cuts are proposed for British Airports - option 7. These are in line with cuts proposed in the main PES report for activities by the Civil Aviation Authority.

Minister of Transport

18. The cuts for buses and the Docks Board - options 8(a) and (b) - are relatively small. But those for buses could lead to increases in fares above those now assumed.

CONCLUSIONS

19. In the light of the discussion you will wish to record conclusions:-

- i. Commissioning from the Ministers concerned papers on the four loss-makers, in July if possible for coal and rail and in September for steel and shipbuilding.
- ii. Approving the review of the arrangements for future dealings with the industries, as in paragraph 16-17 of the report by officials, and leaving ENF to deal with any follow-up work.



iii. Recording those option cuts agreed at the meeting.

iv. Recording those option cuts to be pursued in the first instance in bilateral meetings between the Chief Secretary and the sponsoring Ministers, and inviting the Chief Secretary to report back in September on the outcome, and the sponsoring Ministers to put in papers on particular items where necessary.

In the meantime the industries will not be given new investment approvals for 1981-82 and the volume figures for borrowing will not be set until September when they will form the basis for further work on the EFLs.

A handwritten signature in black ink, consisting of the letters 'R' and 'A' in a stylized, cursive font.

ROBERT ARMSTRONG

8 July 1980