

CONFIDENTIAL



Secretary of State for Industry

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21. January 1980

The Rt Hon Sir Geoffrey Howe MP QC
 Chancellor of the Exchequer
 HM Treasury
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By,

John Gifford

INDUSTRY BILL

As you know, Clause 2 of the Industry Bill provides for the transfer of securities and other property from the NEB to me. Rolls Royce will be dealt with under this power and we cannot rule out the possibility that BL may have to be dealt with in the same way.

When we were drafting the Bill we did not overlook the need for transferred companies to be financed from public funds: but we thought we could look to the Civil Aviation Act 1949 (for continuing launch aid), and the Rolls Royce Purchase Act 1971 (for equity and loan finance for that company) and Section 8 of the Industry Act 1972 (for any wider purposes).

However, on further consideration, I decided for a number of reasons that additional powers would be needed. In particular I was advised that the Rolls Royce Purchase Act must be deemed to have lapsed when the Government's shareholding in Rolls Royce (1971) Ltd was transferred to the NEB in 1976.

Faced with this position, I thought the right course was to introduce a new Clause to provide adequate financing power, but subject to the constraint which Parliament would think appropriate.

By the time this had become evident, the Bill was already well advanced in Committee, and I gave warning to the Committee shortly before Christmas that an appropriate provision would have to be introduced at Report Stage. I am now writing to seek your approval, and that of colleagues, to the particular course I propose.

/The ...



The present statutory financial limit of the NEB is £3,000m and, under the Industry Act 1979, there is provision for the limit to be increased by affirmative order up to £4,500m. The Industry Bill, as at present drafted, provides that this power of further increase will be removed, leaving the limit at £3,000m. We had two reasons for adopting this approach. We had, only a few months before, when the Industry Bill 1979 was before the House, urged that even £3,000m was an excessive provision for the NEB. We recognised, too, the considerable difficulty that there would be in explaining how a new limit seemed appropriate: we thought that to retain the existing limit would minimise the scope for debate, whereas to identify a sum which met the usual requirement of looking five years forward would reveal how uncertain we were about future demands, especially in regard to BL and Rolls Royce, whose affairs at the time we had still to examine. However, time has moved on, and the possible charges against the limit have been defined more precisely. BL's Corporate Plan points to an aggregate of charges exceeding £1,800m over the next three years and probably in excess of £2,000m over the next five years. The requirements for Rolls Royce, on which we have yet to take decisions, point to the company needing something of the order of £1,100m to meet its requirements within the same period. It is more difficult to be precise about the NEB's needs - especially over a 5 year period. The Board have asked for not less than £700m for 3 years and would prefer £1,000m. On a rigorous appraisal it is not easy to justify the higher figure - something like £750m would be nearer the mark - but given all the uncertainties, and the Board's strong views, I suggest we accept £1,000m. None of these figures has been firmly agreed with your officials, but I understand that there is broad agreement about the aggregate of £4,000m. This at first sight is alarming but a major part of it represents expected borrowings from the private sector: there is no implication that there would be public expenditure of this amount. (The totals, however, rest on assumptions about future PES allocations which have not yet been endorsed by the Government, and will not be considered for some time to come. I do not think this invalidates the conclusion.)

I am satisfied that a limit of £4,000m would suffice for the full lifetime of the present Parliament (although it does not provide for the contingency of BL going into liquidation). A principal consideration which I have had in mind for adopting this figure is that, if we were to rely upon the present figure, I am advised that it would be necessary to bring new primary legislation forward at an early date: the £3,000m limit is likely to be reached in between 18 months and two years from now, so that it would be highly imprudent to delay the introduction of further legislation until the 1981/82 Parliamentary Session. That implies that it would be necessary, in the next Queen's Speech, only 7 months after the enactment of the present Bill, to advertise the need for supplementary legislation.



I recognise that to move to a higher limit will generate some criticism from our supporters and give the Opposition the chance of making a number of debating points. Nonetheless, I believe that this is the right, and indeed only proper, course for us to take.

I have asked my officials to work on the assumption that the drafting should be completed in time for us to take Report Stage, as planned, on Tuesday and Wednesday, 29 and 30 January. Your officials are being consulted. To maintain this timetable we shall need to lay the new Clause no later than the evening of Tuesday 22 January, and preferably earlier if possible. In these circumstances, I would be most grateful to have your comments in the course of Monday 21 January. I am sorry to have to be so pressing.

I also propose to table a new Clause the purpose of which is to provide statutory authority for the Small Firms Counselling Service. This service which began experimentally three years ago has now been established on a national and continuing basis. Specific statutory authority is needed in order to comply with an undertaking given by the Treasury to the Public Accounts Committee in 1952 that the authority of the Appropriation Act would not be relied upon for continuing services. A short clause authorising the provision of advisory services in connection with business activities should suffice. This would avoid the considerable difficulties involved in defining small firms. I would not expect it to be at all controversial.

I am sending copies of this letter to the Prime Minister, the Chancellor of the Duchy of Lancaster, Members of E Committee, the Secretaries of State for Scotland and Wales, the Chief Whip and to Sir Robert Armstrong.

Cum,

Kerr,

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21 JAN 1980