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Nat Ind

Ref. A05618

PRIME MINISTER

Nationalised Industries: Investment and Financing Review

(E(81) 92)

BACKGROUND

The Committee agreed on 31st July (E(81) 26th Meeting, Item 1) that an additional £750 million should be provided for the nationalised industries' external finance in each of the three years beginning in 1982-83 and that the sponsoring Ministers should look for savings of £1,750 million in 1982-83 and of more in the two later years. It was agreed that the industries should be told that the Government would hold back investment approval in 1982-83, beyond the 85 per cent provisional authorisation for each industry, until they had produced detailed plans for delivering the required savings.

2. In E(81) 92 the Chief Secretary, Treasury, reports on progress. The figures are summarised in the table at the top of page 2 of his paper: they show a remaining excess of £1,300 million in 1982-83 rising to nearly £2,000 million in 1984-85; in reality the position is probably worse, since the figures are based on those in the Public Expenditure White Paper for the National Coal Board and not on the NCB's bids which have yet to be examined in detail. The Chief Secretary points out that it is disappointing that, of those cuts agreed, less than half represent reductions in working capital and in current costs. The figures for a number of the industries are still based on assumptions of pay settlements in double figures - see Annex B of the paper.

Pay

3. It was agreed, at your meeting on 7th September to discuss nationalised industry pay, that the question of pay settlements should be tackled industry by industry and that each sponsoring Minister should find an opportunity to see his Chairmen to impress on them the importance which the Government attached to their achieving lower settlements.

further urgent discussions

4. The Chief Secretary now asks that sponsor Ministers should hold further urgent discussions with their industries with a view to securing the necessary savings, and in particular reducing the current assumptions for pay, and to



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report the outcome to him by 2nd October. It is important that this timetable should be met so that the Chief Secretary can take account of the outcome in formulating his recommendations for the public expenditure aggregates, and for cuts which may be necessary, which Cabinet will start to discuss on 20th October.

HANDLING

5. After the Chief Secretary has introduced his paper you will wish to hear the views of the sponsoring Ministers and, in particular, those of the Secretaries of State for Industry and for Energy who between them are responsible for the big spenders (notably Electricity, Gas, Posts and Telecommunications) where the savings will have to be found if there is to be any chance of reducing the present excess. The Committee may wish to look in particular at the present assumptions for pay settlements in Annex B of E(81) 92. It should not, however, be necessary to enter into detailed discussion of particular industries. The present figures are still tentative and the object of the meeting is to ensure that the momentum of the search for savings is maintained and that the Chief Secretary knows the outcome in good time.

Monopoly

CONCLUSIONS

6. You will wish to sum up with reference to paragraph 10 of the Chief Secretary's paper and to invite sponsor Ministers to hold further discussions with their industries and to report the outcome to the Chief Secretary by 2nd October.

RTA

ROBERT ARMSTRONG

22nd September, 1981

Prime Minister

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TL 22/9

Qa 05682

To: MR LANKESTER

From: J R IBBS

22 September 1981

Nationalised Industries' Investment and Financing Review

1. The Chief Secretary's paper for E tomorrow (E(81)92) reveals the persistence of a huge gap, which will be hard to close, between nationalised industries' bids for external finance in 1982/83 and beyond and the amounts which E agreed to make available on 31 July. This worrying situation underlines two major concerns of the CPRS: (i) the need for sponsor Departments to have a closer understanding of their industries so that they can identify and press for potential savings - this need was one of the reasons for our proposal on "Business Groups" in our Nationalised Industry Report; the Prime Minister has asked sponsor Ministers to provide alternative proposals that would achieve the same objective; (ii) the poor performance of the public trading sector on pay (and staff numbers) compared to the private sector and even public services - our report on Pay emphasised how weakness on pay could undermine attainment of overall economic objectives.

Ministers have now sent in their proposals, and they are being analysed by CPRS for consideration by the new Committee on nat. industries TL

2. Departments must persuade their industries of the necessity for finding savings. The attitude in nationalised industries that are incapable of generating their cash requirements is vastly different from that in the private sector when a similar problem arises. Investment, though already cut back, should still in some instances yield extra savings; so might disposals, better property management, energy savings and other aspects of "good housekeeping". I am especially concerned that more might be done to reduce working capital, including stocks (on which I understand preliminary Treasury calculations actually suggest an increase) and debtors.

3. It is the industries' pay and staffing assumptions, however, that most need to be challenged, both for their size and because the scope for major action in other areas may be limited. Nationalised industries' tariff increases, for example, are already damaging the private sector; and sizeable cutbacks in investment where this is for much needed modernisation would be undesirable.

4. Annex B to the Chief Secretary's paper shows in column 2 a scatter of industries' settlement assumptions which in no way reflects the differences in their bargaining strengths. British Shipbuilders and the Post Office, for example, should be pressed to revise their assumptions downwards. British Telecom's assumptions are at the high end of the range and should likewise be challenged. Even the NCB's assumption looks high in relation to indications that have been given of the level of settlement that is believed possible. And the table shows no signs of the important distinction between coal, those industries which it may be difficult to prevent from following coal, and those where it may be quite realistic, and necessary, to take a firm stand.

5. In a few instances it may have to be accepted that the reduction being sought is not attainable in full. For example, the electricity industry's shortfall of £434 million in the contribution which is sought from them looks unrealistic and could hardly be achieved without cutting the nuclear programme.

6. I am sending a copy of this minute to Sir Robert Armstrong.

JR/

22 September 1981

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POLICY UNIT

PRIME MINISTER

c.c. Mr. Hoskyns
Mr. Duguid

E: 23 September: Nationalised Industries

The Chief Secretary's paper E(81)92 concludes that sponsor Ministers should urgently seek additional savings in EFLs, in particular through a reduction in the current assumptions on pay. This is of course chiefly a matter for the sponsor Ministers; but we have four comments on the pay aspect:-

(i) The figures in Annex B are a bit misleading. The NCB is assuming 7-8% for the settlement this November, and 10% next November. Mr. Brittan has already asked Mr. Lawson to challenge the 10%; and the 10% assumption for the electricity industry ought also to be brought down to 7%. These changes "save" about £30m each in 1982/83.

(ii) At your meeting on 7 September, it was agreed that sponsor Ministers would see each of the Chairmen with a view to lowering the pay assumptions. It would be useful to take this opportunity of the E discussion to ask what progress has been made.

(iii) Nonetheless, it would be fatal to create artificial savings, which would not in the event be realised, by lowering the pay assumptions where there is no prospect of the assumptions being correct. That would simply lead to a series of subsequent breaches of the EFLs.

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(iv) Therefore, it is important to examine the prospects for pay, industry by industry. For instance, it is very unlikely that lower settlements than currently assumed by the Treasury can be achieved in the public utilities; but substantial savings would be achieved by lower settlements in the weaker, non-monopoly nationalised industries such as the Post Office, British Telecoms and British Shipbuilders, and smaller savings would be achieved by lower assumptions in the smaller nationalised industries. There must also be a big question about the justification for the present assumption (8.3%) for the settlement in BR.

J.

Since dictating (iv) above, I have seen David Howell's letter of 22 September about the considerably worsened prospects for BR. He concludes that it would be "wishful thinking" to challenge BR's pay assumption (8.3%). He really ought to be pressed on this: BR's financial position, as outlined in his letter, constitutes a strong case for a very low settlement indeed next year, if not a standstill. That might carry the risk of a strike. But there are 11 months in which to prepare for it - i.e. to let BR employees adjust to the reality of working in a loss-making industry, and to get proper contingency planning done.

J.

22 September, 1981.