CONFIDENTIAL

Reference P.0605

PRIME MINISTER

Quarterly Monitoring Report
E(NI)(81)9

BACKGROUND

Flag A – The Chief Secretary's memorandum, E(NI)(81)9, covers the latest quarterly monitoring report prepared by the Treasury on the 1981-82 External Financing Limits (EFLs) of the nationalised industries. It takes into account the position reported by the industries in their end-September returns. The purpose of the discussion is to ensure that sponsoring Ministers are pressing those industries which look like breaching their EFLs to take swift and effective action to correct the position. As the table attached to the officials' report shows, the industries in total are at present, and without further corrective action, expected to overspend by £726 million by comparison with their original EFLs but by £57 million compared with the revised EFLs which have now been agreed.

Main Issues

2. You will wish to hear from the sponsoring Ministers concerned with each of the five industries which are currently forecast to overspend; the key figures are set out in the following table:

£ million

	EFL for 1981-82 Original	Revised	Excess
British Telecom	180	380	70
NCB	886	1117	63
BR	867	920	17
BGC	- 317		33
BTDB	- 5		8
			191

You will also wish to check whether there are any problems on the other industries.

British Telecom

3. It is particularly unsatisfactory that British Telecom are showing an excess of £70 million over a target which has already been increased during the year by £200 million. At their meeting on 18 September, the former Sub Committee on Nationalised Industry Financing (ENF) agreed that there should be scope for significant savings in operating costs although it might be difficult to deliver all of these during 1981-82. To have any chance of eliminating, or at least substantially reducing, the excess it seems essential that British Telecom should now be pinned down to specific commitments on savings.

NCB

4. The position on the National Coal Board is similarly unsatisfactory. They now say that they will avoid an overspend of £63 million only if the Central Electricity Generating Board increases its purchases of coal this year. As the Chief Secretary points out, in his letter of 27 November to the Secretary of State for Energy, even if a satisfactory sales scheme were worked out it would lead to a corresponding loss of income for which no provision has been made in the NCB's 1982-83 EFL. The Secretary of State for Energy will not, however, be ready to comment on this tomorrow; he will be minuting you in the context of the MISC 57 report on coal which the Home Secretary will be putting to you next week (NB the Secretaries of State for the Environment and for Trade do now know of MISC 57).

Flag B —

Prime Minister

Mr Lawson hopes there will not be a discussion of the NCB EFL tomorrow, because the MISC 57 decisions (meeting planned for Dec 17) will affect the total; and because of the confidentiality of MISC 57.

MCS 2/12

British Rail and BTDB

£17m

5. It should be possible for British Rail to offset the relatively small excess on their revised EFL. It is recognised that there is little chance of the British Transport Docks Board being able to achieve further cost reductions to close their gap: their receipts are severely depressed,

and in the short term the cost savings from manpower reductions are being absorbed by redundancy payments.

BGC

6. The Chief Secretary will probably not press hard for changes by the British Gas Corporation. In future their EFL will be set post-levy and on that basis they would be overrunning by only £3 million. This situation arises because, when the levy estimate was fixed at the beginning of the year, assumptions were made about the amounts of gas lifted from southern basin fiels to which the levy applies. In practice BGC have lifted far more gas from the northern fields.

HANDLING

7. After the Chief Secretary has introduced his paper you might then invite the Secretaries of State for Industry, for Energy, and for Transport to say what action they are taking on each of their industries which look like overspending and to inform the Committee of any other problems which might arise on their other industries. You might then check with the Secretaries of State for Trade (Airways and Airports) and Scotland (Electricity and the Scottish Transport Group) whether they expect any difficulties with their industries.

CONCLUSIONS

8. In summing up, you will wish to record conclusions on the specific action which sponsoring Ministers have volunteered, or agreed to take, on the industries which are currently forecasting an excess, and to require them to report progress as soon as possible.

PLG

P L GREGSON

2 December 1981