P.0844

PRIME MINISTER

Quarterly Monitoring Report (June 1982):
E(NI)(82)26

BACKGROUND

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This memorandum by the Chief Secretary, Treasury, with its associated note by Treasury officials, continues the regular series of quarterly monitoring reports on the nationalised industries. The previous report, for the quarter ending March, 1982, was circulated as E(NI)(82)14 and discussed at E(NI)5th Meeting, Item 2. That meeting, among other things, invited the Chief Secretary to consider whether the deadline for the submission of monitoring returns from the nationalised industries should be extended from the present four weeks after the end of the relevant quarter to six weeks. E(NI)(82)26 also discusses this question.

MAIN ISSUES

2. The issues can be divided into two categories:

(i) The information revealed by the latest monitoring returns on external financing limits (EFLs) and investment in fixed assets; and

(ii) possible changes in procedure to improve the present monitoring system.

External Financing Limits

§3

3. The only industry to forecast a significant overshoot beyond its EFL is British Rail. The forecast overshoot is £167 million, of which £90 to £130 million is attributed to industrial action. British Rail has corrective action in hand. You will no doubt wish to ask whether it is sufficiently vigorous, and whether extra finance could be raised by additional sales of assets.

4. The report also suggests that British Airways may be at risk of breaching its EFL, largely because of higher redundancy costs (which may be offset at least in part by higher proceeds from the disposal of assets). You may wish to ask for an up to date assessment from the Secretary of State for Trade.

5. Finally, the National Coal Board is also suggested as a potential cause for concern; but it is hard to assess the prospects until the outlook on the wages front is clearer.

Fixed Assets

6. A number of industries are forecasting lower investment in fixed assets than allowed in the FSBR* forecast. However, the report by officials gives what appeared to be satisfactory explanations for most cases. The main possible exception is British Telecom: the factors given in the report seem to be things that might reasonably have been allowed for in the original forecasts. You may wish to ask the Secretary of State for Industry whether he is satisfied with British Telecom's forecasting methods.

£315m

7. A general point made by the Chief Secretary is that it is undesirable that industries should reduce investment in fixed assets rather than current costs in order to stay within their EFL: he asks the Sub-Committee 'to ensure that cuts in capital spending only take place as part of an agreed strategy to reduce costs'. Clearly the general sentiment is right; but it is not possible to ensure that the result desired by the Chief Secretary will be achieved. Ministers do not have the necessary powers; and there is the danger that if they discourage their industries from reducing investment they will be blamed for any resulting overshoot of the EFL. You may therefore think it right that any conclusion of the Sub-Committee should be expressed in more guarded terms.

Procedures

8. The Chief Secretary was invited at E(NI)5th Meeting to consider extending the deadline for the submission of returns from four to six weeks after the end of the relevant quarter. The main reason for this was that many industries refuse to submit returns until they have been approved

6 weeks

* Financial Statement and Budget Report

by the Board; and the timetable for board meetings does not necessarily fit the timetable for the submission of monitoring returns. It was suggested that a deadline of six weeks would be more likely to be respected.

9. The Chief Secretary, however, argues that an extension would reduce the chances of being able to take timely corrective action; and that the existing deadline should therefore be maintained. He suggests that existing procedures should be tightened as follows:

(a) all quarterly monitoring information sent by the industries to sponsor departments should be copied simultaneously to the Treasury; and

(b) industries should similarly send copies of all monthly funds flow statements to the Treasury by the end of the calendar month following the period to which they relate.

These suggestions appear to mean no more than that the industries should send copies of all monitoring material to the Treasury as well as to the sponsoring department. Some departments and industries may see objection to this on the grounds that it may confuse responsibility; but it should be possible to work out arrangements at official level that will avoid such a risk.

10. Finally, the Chief Secretary suggests that since many industries have been unwilling to provide quarterly forecasts of capital requirements, internal resources, and external financing requirements, officials of sponsoring departments should be instructed to fill the gap. This would be very much a second-best solution: industries will feel no responsibility for forecasts prepared by sponsoring departments, and are very unlikely to answer questions based on comparisons between departmental forecasts and their own outturns. Similarly, departments will always have the excuse of 'special factors', of which only the industries could be expected to be aware. The desirability of having quarterly forecasts against which to

monitor outturn was accepted by Ministers in principle in September 1981 (E(NF)(81)2nd Meeting) as part of the CPRS monitoring proposals. Clearly it is most important to have budgets against which to monitor outturn; and you may think it better to ask sponsoring Ministers to take the question up personally with their Chairmen before concluding that the attempt to secure quarterly budgets from the industries themselves must be abandoned.

HANDLING

11. It will be convenient to divide this item up into two parts:

(i) information in the current monitoring report and the prospects for individual industries;

(ii) possible improvements in monitoring procedures.

You will wish to ask the Chief Secretary, Treasury to introduce the first part of the discussion. The Secretaries of State for Transport, Trade and Energy might then be asked to comment on the prospects for British Rail, British Airways, and the National Coal Board respectively, and the Secretary of State for Industry on the adequacy of British Telecom's procedures for forecasting investment in fixed assets.

12. The Chief Secretary, Treasury could also be asked to introduce the second part of the discussion. All sponsoring Ministers are likely to have views. Mr Sparrow will wish to comment from the standpoint of the CPRS work on monitoring arrangements.

CONCLUSIONS

13. You will wish to Sub-Committee to reach conclusions on the following:

(i) Any further information or corrective action required in respect of particular industries because of the prospects for EFLs and expenditure on fixed assets shown in E(NI)(82)26.

(ii) Whether the industries are to be given any guidance on reductions in expenditure on fixed assets in order to stay within their external financing limits.

(iii) Possible changes in monitoring arrangements, especially -

(a) the deadline for the submission of monitoring returns;

(b) sending information to the Treasury direct as well as to sponsoring departments;

(c) whether officials should now be instructed to draw up quarterly budgets of capital requirements, internal resources and external financing requirements if industries are unwilling to provide such budgets themselves.

PLG

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