cc Nationalised Industries
Policy : Pt 7

JR

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cc dhe — CS, HM
Press

10 DOWNING STREET

THE PRIME MINISTER

2 November 1982

Dear Mr. Payne,

I recently met the Group of Eight, the body which represents all sides and parts of the construction industry. They expressed concern about shortfall on nationalised industries' planned capital expenditure, and I suggested they should approach nationalised industries direct to persuade them of the need to spend their capital allocations. I also told the Group that I would write to nationalised industry Chairmen, setting out the Government's views.

As you will know, the investment plans put forward by the nationalised industries for 1982/83 and approved, were 26 per cent higher in cash terms than the estimated outturn achieved in 1981/82. This large increase has received a great deal of public attention. I recognise that events outside industries' direct control might cause investment plans to be revised downwards during the course of the year but I hope that every step is taken to ensure that this only happens after careful consideration. Where reductions in expenditure are needed to ensure that an industry stays within its External Financing Limit, I would hope that profitable investment is only reduced as a last resort.

The importance of maintaining investment programmes wherever possible has been brought to sponsor Ministers' attention. I would be grateful if you would let your fellow Chairmen know my views.

Yours sincerely
Margaret Thatcher

Norman Payne, Esq.

Prime Minister 2
We will let you have a draft reply.
Duty Clerk
Mr W. Rickett
19/11

Nationalised Industries' Chairmen's Group

Chairman
Norman J. Payne CBE

Hobart House
Grosvenor Place
London SW1X 7AE
01-235 2020

19th November 1982

The Rt. Hon. Margaret Thatcher, MP,
The Prime Minister,
10, Downing Street,
London S.W.1.

MS

Dear Prime Minister

I have now had an opportunity to consult my colleagues about your letter of 2nd November.

The Chairmen share your wish to see the Corporations' capital spending reach the level authorised for 1982-83. None of us have any desire to defer profitable projects, and we are taking every prudent and commercially sensible step to maintain our planned investment programmes, wherever possible.

There are, however, factors outside our control which operate against that objective in many cases, - though the Corporations' situations differ widely. Some are economic: e.g. with current market conditions being what they are, and less optimism now being expressed about the timing of the upturn, the Corporations, as profit-oriented businesses, are bound to re-examine critically investment programmes originally proposed some 18 months ago. Some are organisational: e.g. the way in which Departments treat investment authorisations and EFLs as maxima rather than mid-point estimates forces a constant depressive effect on the planning of expenditure. Also, the welcome fact that we are now building planned facilities cheaper, helped by keener quotations from suppliers and contractors, appears as an underspend in the statistics. For our part, we shall continue to do whatever we can to overcome such obstacles; though with only a third of the year remaining, time is not on our side.

I must add that my colleagues and I regretted some of the points which you made to the Commons on 3rd November, which ranged wider than the specific issue raised in your letter. In particular:-

(a) The Chairmen have been pressing for nearly three years for more investment in the public sector industries, both on commercial projects which satisfy the profitability criteria and on socially-desirable infrastructure schemes. Throughout all that period, our arguments met with vehement opposition in Whitehall. Capital spending by major businesses with long "lead times" cannot be increased suddenly.

(b) Neither can it prudently be increased without some assurance that a higher level of investment will be maintained in the future. The Autumn Statement said nothing about our investment levels after March next; and in aggregate, our access to external finance is to be cut in real terms next year.

(c) Any suggestion that Corporations maintained their external borrowings but cut back on investment in order to finance excessive wage increases needs to be set alongside both the CBI's figures and those of the Department of Employment. These show clearly that the public sector of industry did just about as well as the private sector in restraining wage increases in the last Pay Round.

Yours sincerely

Lord. J. Payne

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c.c. Mr. Scholar
- Press

Nat. Ind

10 DOWNING STREET

From the Private Secretary

19 November, 1982.

I enclose the response from the Chairman of the Nationalised Industries' Chairmen's Group to the Prime Minister's letter of 2 November in which she drew attention to the importance of maintaining investment programmes wherever possible.

I should be grateful for your comments on Mr. Payne's remarks, and for a draft reply for the Prime Minister to send to Mr. Payne by 3 December, if you judge that a reply is necessary.

W. F. S. RICKETT

Miss Jill Rutter,
HM Treasury.

10 DOWNING STREET

From the Private Secretary 19 November, 1982.

I am writing on behalf of the Prime Minister to thank you for your letter of 19 November. I will place this before her as soon as possible.

W. F. S. RICKETT

N.J. Payne, Esq., C.B.E.

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(2)

Prime Minister

To note that the Chief Secretary suggests that he replies to Mr Payne's reply to your letter.

MCS 2/12

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

William Rickett Esq
10 Downing Street
London SW1A 2AL

2 December 1982

Dear Willie

You asked for comments on the letter dated 19 November from Mr Payne, the Chairman of the Nationalised Industries' Chairman's Group about capital underspending by the nationalised industries.

Mr Payne has responded favourably to the Prime Minister's initiative in drawing attention to the importance of maintaining investment programmes, and a further letter from the Prime Minister is not required. He has however made one or two debating points which ... the Chief Secretary proposes to take up with him as in the attached draft.

Yours sincerely

J.L. Gieve

JOHN GIEVE
Private Secretary

THE
DRAFT LETTER FROM THE CHIEF SECRETARY TO:

Norman Payne Esq
Nationalised Industries' Chairmen's Group
Hobart House, Grosvenor Place, LONDON SW1X 7AE

I was glad to see from your response to the Prime Minister's letter of 2 November that the Chairmen of the Nationalised Industries are taking all possible steps to achieve the agreed levels of capital expenditure.

2. We fully appreciate that there are factors affecting the level of investment outside your direct control; indeed the Prime Minister recognised this in her letter to you. Nonetheless we hope that the industries will so far as possible make full and proper use of the provisions we have made for capital investment within their external financing limits. I recognise that the time available within the current financial year is limited but following the recent Investment & Financing Review the industries' external financing limits for 1983-84 have been announced. They should therefore be in a position now to put forward their proposals for future capital expenditure. Once these have been approved the industries will be able to plan ahead with confidence on the basis of the agreed programmes of investment.

3. I note what you say about the level of wage increases in the last pay round but the fact remains that the overall increase in average earnings in the nationalised industries was markedly ahead of that for the public services generally. We have clearly indicated that in the coming year pay increases in the public services where the Government is the employer must be accommodated within an increased cash provision for 1983-84 of 3½ per cent over the previous financial year. Nationalised industry employers need to adopt an equally firm stance. Failure to do this would imply higher prices or less investment. The public are already critical of the level of nationalised industry prices and would react strongly to increases which could be attributed directly to excessive pay

settlements. And it would of course be damaging for the industries themselves if the investment we agree to be necessary had to be held back because of unjustified pay increases for their employees.

[L.B.]

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2 DEC 1982