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Treasury Chambers, Parliament Street, SW1P 3AG

Callum McCarthy Esq
 PS/Secretary of State for Trade
 and Industry
 1 Victoria Street
 LONDON
 SW1

31 October 1984

Dear Callum

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Your Secretary of State's minute to the Prime Minister of 9 October noted that he and the Chief Secretary would need to pursue bilaterally the outstanding issues on the ECGD programme in 1986-87 and 1987-88. It is also necessary to settle finally EFLs for the BSC and the Post Office, on which your Secretary of State put proposals to the Chief Secretary on 1 October. With the work of MISC 106 drawing to a close these outstanding issues need now to be settled quickly.

ECGD: Switch of New US Dollar Business into Sterling

The one issue left outstanding, following the discussions earlier this month between the Prime Minister, the Chief Secretary and your Secretary of State, was the question of obtaining savings from switching new ECGD-guaranteed US dollar business into sterling.

As you will be aware ECGD's additional bids have increased further, as a result of the use of the most recent economic assumptions. For the Chief Secretary this is most unwelcome in a very difficult overall public expenditure outlook, and he feels he must ask your Secretary of State to reconsider his earlier objections and agree to the introduction of an interest rate loading for new ECGD-guaranteed US dollar loans to give the same calculated subsidy as for sterling loans. He understands that your Secretary of State would prefer to operate through a more flexible loading system than through a

file on B1 up for
 meeting 30/10/84
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straightforward ban on dollar finance. If interest rates develop as forecast, this would now result in savings of:

1985-86	1986-87	1987-88
£1.3m	£9.2m	£26.8m

The Chief Secretary appreciates that this is a difficult issue, and that the savings achieved are small at first, but the growth in ECGD's forecast expenditure is alarming and he does not believe there is any other realistic way of reducing it.

Nationalised Industries

The Chief Secretary was grateful for your Secretary of State's letter of 1 October. He feels there is now a basis for settling the EFLs for BSC and the Post Office.

British Steel Corporation

Your Secretary of State offered the following EFLs:

	£m		
	1985-86	1986-87	1987-88
Baseline	135	75	77
Bid	360	171	136
Compared with baseline	+225	+96	+59

The Chief Secretary welcomed the fact that this bid now conforms with the declared strategic objective of breakeven by 1 January 1986 and he is prepared to agree to these EFLs on that basis. He accepts that there are uncertainties ahead because several issues have yet to be addressed before BSC can be confident of achieving the breakeven objective. He will certainly be prepared to re-examine the EFL in the light of decisions on these issues once they have been taken. But your Secretary of State would not expect the Chief Secretary to agree in advance to a relaxation. It will need to be looked at in the light of all the circumstances.

Post Office

The Chief Secretary was disappointed that your / Secretary of State was unable to accept the figures he proposed. He will want to return to the issue of efficiency when performance and financial targets are set for the Post Office. While he recognises the industrial relations dangers he is sure the Post Office should be pressed to take every step to turn itself into a more streamlined and

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efficient organisation. However, for the present he is willing to accept your Secretary of State's proposal for 1985-86 if he could make a small further reduction in the later years as follows:

	£m		
	1985-86	1986-87	1987-88
Baseline	(68)	(68)	(70)
Offer	(70)	(60)	(60)
Compared with baseline	-2	+8	+10

The Chief Secretary would not object if you were to confirm to the Post Office that an adjustment to their EFLs would not be ruled out if we approved a major capital expenditure project on the basis of a properly presented and analysed appraisal. However we would not want the Post Office to form the impression that any adjustment to their EFL would be automatic and he would want to press very hard for any extra capital expenditure to be met from offsetting savings within their existing EFLs.

As you know, the timetable for reaching final decisions is now very tight, and I should be most grateful for a response to these points by close on Monday 5 November if possible.

I am sending a copy of this letter to Andrew Turnbull at No 10 and to Sir Robert Armstrong.

Yours ever
Richard
RICHARD BROADBENT
 Private Secretary

Exam for Public Exp. Pt 29

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PRIME MINISTER

Public Expenditure Survey 1984

You are likely to be holding a number of meetings over the next few days to consider the remaining stages of the Public Expenditure Survey in the light of the work done so far by the Ministerial Group on Public Expenditure (MISC 106): you have already arranged to see the Foreign and Commonwealth Secretary at 4:45pm tomorrow.

2. As background for those meetings the Secretariat of MISC 106 have prepared the attached notes setting out the position reached by the Group so far. I am afraid that it is inevitably a snapshot, taken at mid-day today, with a good many parts of the picture still not sharply focused; but I hope that it will help.

3. At the very least it shows clearly that even though the recommendations which the Group have either agreed with or put to the spending Ministers concerned are bound to be regarded as very severe, the remaining task is formidable. The Group will almost certainly be putting recommendations to the Secretary of State for the Environment on his programmes which he will regard as extremely, perhaps intolerably, severe; and there are big problems, of which you are well aware, in imposing large savings on the gas and electricity industries. Every pound conceded makes the Group's task more severe, not only as a matter of arithmetic but also by making it harder to persuade other spending Ministers that they have been fairly treated.