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PRIME MINISTER

NATIONALISED INDUSTRIES INVESTMENT AND FINANCING REVIEW: E(A)

Peter Rees is right to seek major cuts in the proposed External Financing Limits for the nationalised industries. His five points in the conclusion should be warmly supported.

To add force to his case that tighter targets are realistic and should be delivered, you could also argue:

1. The large unsuccessful conglomerate businesses (British Steel, National Coal Board, BR) still have considerable scope over the next 2-3 years for selling off the more profitable parts of their enterprises. This would be good for jobs, innovation and growth in these smaller businesses, and would bring in proceeds to help the Exchequer. Couldn't NCB sell off its solid fuel distribution, D Energy say this has now been sold builders' merchanting, brick manufacture and consultancy subsidiaries and associates? Couldn't BSC sell off more of its phoenix businesses in addition to selling Stanton and Staveley? And at British Rail, can't BREL and other ancillary businesses follow Sealink into the private sector quickly?

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2. All the industries have enormous scope for reducing current costs and improving profitability by improved productivity.

3. Price increases are a means of improving cash flow and profits. We should not, however, want to put nationalised industry prices up on average by more than the going rate of inflation.

4. We should, as the Treasury suggest, be extremely sceptical about many of the capital investment projects being put forward by nationalised industries. They have been wrong in the past in prophesying good returns, and are likely to be wrong in the future. The BR bid includes expenditure on the electrification of the East Coast main line, which remains a questionable proposition. The BR External Financial Limit is disappointingly high for 1985-86, bearing in mind the strategy agreed with Bob Reid to reduce the amount of PSO payments quite sharply over a 3-year period.

5. Working capital requirements should be hit much more heavily than they have been in the past. The proposals in the Annex represent modest progress or no progress at all.

Conclusion

The Treasury targets are very tough and will be hard-fought by the departments. In the end - particularly at the National Coal Board - there is likely to be an overrun compared with the tough Treasury objectives. Nonetheless, it is vital at this stage to put the monetary screws onto the nationalised industries, and to use them as a means of enforcing disposal of under-used assets, of ancillary businesses not related to their main activity, to squeeze working capital, and to flush out unproductive investment projects.

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