



Prime Minister

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

13 February, 1980

The Chancellor
referred to
this at your
meeting this
morning.

ms.

Sir Keith

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EXTERNAL FINANCING LIMITS FOR NATIONALISED
INDUSTRIES 1980-81

When we set the 1980-81 external financing limits for the nationalised industries last November, we all recognised that they would be tight: indeed, that was our intention. We all agree that it is critically important that these limits should be adhered to and I am anxious that we should do everything in our power, in good time, to make sure of this. Our recent experience in relation to the Post Office and the electricity industry, where substantial excesses have emerged late in the year, demonstrates how difficult it can be to enforce the limits unless adequate action is taken early.

I believe there is a considerable risk that the external financing limits of a number of the industries may be exceeded next year unless action is taken early. I am told that in a number of cases the nationalised industries, in doing the calculations on which the external financing limits for 1980-81 were based, made assumptions about GDP and inflation which were optimistic by comparison with the forecast we published in December. If the economy develops in line with that forecast, new action will be needed by those industries to ensure that the limits are adhered to. Investment programmes may have to be cut further, and there may have to be action to cut current costs and improve efficiency and in some cases earlier or higher price increases than those now planned.

It would be a tragedy - and I think totally unacceptable to our colleagues - if the savings in public expenditure, on which we have just agreed after quite a struggle, were cancelled out, wholly or partly, by large

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The Rt. Hon. Sir Keith Joseph, MP



excesses in nationalised industry EFLs in the course of 1980-81. I am therefore writing to ask you and the other sponsoring Ministers to consider urgently whether anything can and should be done before the start of the financial year to make sure that these industries are able to keep within the limits which have been set. I think that in doubtful cases we should consider asking the industries either to confirm that they believe they will be able to live within the limits or to identify the action which they propose to take, or could take during the year if necessary, to live within them. I should be grateful if you would let me know urgently what you think.

We are of course going to meet the Chairmen on 20th February and I intend then to emphasise how much importance we attach to observing the limits in 1980-81. I think it would be useful if we met beforehand to discuss the handling of that meeting, but it would not be an appropriate occasion to discuss the plans of individual industries.

A further point is the importance of efficient monitoring. I suspect we need to consider whether sponsoring departments are getting adequate, regular and up-to-date information on each industry's financial position and prospects for the remainder of the year and indeed whether in all cases the national managements of the industries have this information. We do not want to interfere unnecessarily but we do want to avoid surprises of the kind we have had recently in one or two cases.

I recognise that steel is a case of special difficulty and you may not be able to answer the question I am asking until after the strike is settled; but of course I am no less anxious in that case to ensure that the external financing limit for 1980-81 is adhered to.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for the Environment, Scotland, Trade, and Energy, to the Minister of Transport and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'G. Howe', with a horizontal line underneath.

(GEOFFREY HOWE)

13 FEB 1960

