Nat Ind

CONFIDENTIAL

Qa 05173

To: MR LANKESTER

From: J R IBBS

Nationalised Industry EFLs 1981/82

1. In E(80)125 the Chief Secretary reports that sponsor Ministers have now identified measures by which they are prepared to reduce the total of EFLs to a figure of £757m. above that agreed by Cabinet in July. For his part, the Chief Secretary is prepared to accept an excess of £300m. The gap remaining is therefore £457m.

2. To bridge this remaining gap the Chief Secretary proposes further across-the-board cuts equivalent to 9 per cent of investment programmes. It would, however, be open to sponsor Ministers to vary the severity of the cuts between their industries and to reduce current costs, rather than capital investment, if that is practicable.

3. Given the commitment of Ministers to contain public expenditure, and the difficulties already inherent in the Chief Secretary's proposals for reducing other public expenditure programmes, it is difficult to argue that the scale of cuts proposed for nationalised industries is disproportionate. We should, however, like to make two points:

(i) In principle it is undesirable to make pro rata, across-the-board, cuts since these cannot be expected to yield an efficient and rational distribution of resources. We therefore think Ministers should be urged to use to the maximum possible extent the discretion to vary the severity of the cuts between their programmes, and to put maximum emphasis on cutting current costs and improving efficiency.

(ii) The scope for variation between industries may be limited in the short term. But the problem is likely to recur next year and we would strongly urge that Departments should begin to formulate a strategic medium-term plan for allocating capital resources between different industries. Such a plan should entail an ordering of priorities in investment programmes, giving preference to those industries expected to be the most profitable and which will contribute most to the infrastructure of the economy and its efficiency. Other industries (probably steel and shipbuilding) would have to be given low priority. Some of these might have to pursue a policy of minimising their financial requirements, and cutting costs even if this would lead to partial closing down of the industry. It would be far better to end up with fewer industries all of which are vigorous and successful by world standards than with a wider range of activities none of which is outstanding and some of which remain in chronic difficulty and a drain on the Exchequer from sub-optimal planning and under-investment.

4. I am sending a copy of this minute to Sir Robert Armstrong.

JRJ

4 November 1980