

cc PS/CST  
 PS/FST  
 PS/MST (C)  
 PS/MST (L)  
 Mr Ridley  
 Sir D Wass

C - diff letter for  
 appd.  
 Mr Ryrie  
 Mr F Jones  
 Mr Lavelle  
 Mr Kerr  
 Miss Peirson  
 Mr Winnard  
 Mr Welsh

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 CHANCELLOR OF THE EXCHEQUER

Industry Bill

In his letter of today Sir Keith Joseph explains that he wants to table some amendments to the Industry Bill tomorrow. He asks for your agreement today. We have been consulted on this and we recommend you to agree to his proposals, subject to one point on the statutory financial limits which is explained below. The amendments incorporate three main changes.

Financing of transferred companies

2. The Bill provides already for the transfer by Order of companies, such as Rolls Royce, from the NEB to the Secretary of State. But the Department of Industry and their lawyers have now decided that, contrary to their previous advice, existing legislation does not provide adequate authority for the financing of such companies. The amendments deal with that.

The Statutory Financial Limit

3. The Bill currently provides for the overall limit - covering BL, Rolls Royce and NEB's other activities - to be £3000m rather than Labour's £4500m. In the light of the more recent and detailed work on BL and RR Sir Keith wants to take the opportunity of the amendments to make the overall limit £4000m, which should last for the rest of this Parliament.

4. We agree that £3<sup>000m</sup> is inadequate and, since it would last for only about two years, would cost unnecessary difficulties with the Parliamentary timetable. We also agree with the proposed overall limit of £4000m, which will be subdivided by Order between the transferred companies and the NEB. But the attached draft letter makes the point that it is important for Sir Keith to make clear that this increase does not of itself imply any increase in public expenditure plans. Indeed most of <sup>it</sup> represents existing charges on the limit and the provision for private sector borrowing.

5. But within the £4000m Sir Keith proposes to earmark £1000m for NEB's activities other than BL and RR. He is bound to be questioned on this and we do not see how he could justify it without saying either that it provides

for the possibility of a more ambitious NEB role than presently planned or that it caters for the possibility of major rescues. In our view the most that he could defend is £750m which is the figure DOI's own analysis points to. The draft letter advises in favour of this and I understand that DOI officials will recommend Sir Keith to accept it.

6. But even with this change in the subtotal we would be content to let the overall total stay at £4000m. This recognises the uncertainties over the combined financing requirements of EL, RR and the NEB during the next five years.

Small Firms Counselling Service

7. The opportunity will be taken to provide statutory authority for this small service. There is already public expenditure provision for it.

AW.  
D J L MOORE

21 January 1980

DRAFT LETTER

Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry  
Ashdown House  
123 Victoria Street  
LONDON SW1E 6RB

INDUSTRY BILL

Thank you for your letter of today in which you summarised your proposed additions to this Bill. I agree with your proposals with one reservation.

2. I think that the limit which will effectively apply to NEB's activities other than EL and Rolls Royce should be £750m rather than £1000m. You are bound to be questioned on this figure and I am advised that you could only justify a limit as high as £1000m by implying that the NEB might be given a more ambitious role than we currently plan to permit or that you are specifically providing for their taking <sup>on</sup> some major rescue cases. To avoid this I think you should use the £750m which, as you recognise in your letter, is the very most which could be justified by the appraisal made by officials. I realise that if there were to be any change of policy on the NEB or if any major rescue cases were to put into their care it would be necessary to introduce a new limit sooner than otherwise. But I would prefer that possibility to the risk of casting doubt on our own policies now.

3. Bearing in mind the inevitable uncertainties over the totals applicable to EL, Rolls Royce and the NEB over the next five years I would, however, be content to stay with £4000m as the overall limit. When you explain this increase to the House I am sure that you will be at pains to point out that it does not imply any increase in our

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public expenditure plans. Indeed much of it covers existing charges on the statutory limit and much of it private sector financing which does not score as public expenditure.

4. I am sending copies of this letter to the Prime Minister and to the other recipients of your letter.

GEOFFREY HOWE

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