

Dominic Austin

You wanted this  
back.

cc Mr Hughes  
Mr Hughes.

PRIME MINISTER

R. 9/1

The Treasury have provided figures for total Government financing of the major nationalised industries, and their profit and losses over the last 5 years (Flag A). Besides BSC, the NCB and British Rail show very large figures for both total financing and losses. In contrast to BSC, both these industries are forecasting sizeable losses over the next few years. The forecast of losses for NCB is over £200 million in both 1980-81 and 1981-82 - although roughly half of this is due to deficiencies in the miners pension scheme and costs of pit closures. In the case of BR, operating subsidies are necessary for social/regional reasons.

Why are we allowing NCB to run at a loss while expecting BSC to break even from 1980-81 onwards? Apart from the fact that half of NCB's losses are due to special factors, it seems to me there are two arguments:-

1) In the short run, we have to produce coal since our ability to import is limited by availability and by the capacity of our ports. If we reduce the operating subsidy to zero, NCB would put up their prices. In either case, the consumer/taxpayer has to pay. With steel, imports are readily available and BSC cannot put up their prices. Any operating subsidy is therefore an extra charge on the consumer/taxpayer.

2) The long run prospects for steel demand are poor unless BSC can radically improve its competitiveness. This is not true of coal - though every effort must be made to make the coal industry more efficient.

/BSC employs

BSC employs 183,000 workers (of whom 153,000 are in iron and steel activities). Against the operating loss of £324 million for 1979-80, therefore, we are paying a subsidy of <sup>1,800</sup> ~~£1,934~~ per man. Against the total Government financing of £700 million for 1979-80, we are providing £3,825 per man. (David and I will work on these figures further in the morning).

The operating subsidy to NCB for 1980-81 has not been announced yet. The Department of Energy have agreed to postpone this for the time being. Their Ministers were to have announced it next week, but have now said it can be put off until the second reading of the Coal Bill in February. I have asked them to come back to us before they finally decide to make the announcement - the second reading of the Coal Bill could be put back if necessary.

TZ  
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cc Nat. Ind (Policy)  
Mun 79

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

8 January, 1980

Dear Tim,

I understand that the Prime Minister has asked for figures setting out the total external financing requirements of the nationalised industries over the past five years, together with figures for their profits/losses.

... The attached table provides this information for the major industries. There are two points to be borne in mind in interpreting these figures. First, the external financing figures provide only one component of the industries' capital requirements, a further contribution coming from internally generated funds. Second, the profit or loss figures are not directly comparable with each other. The figures for the years 1975/76 to 1978/79 are taken from the industries' published accounts and thus reflect a variety of accounting practices. They are post interest and therefore reflect differences in the capital structure of the industries i.e. both the timing of any capital reconstructions and the form in which the capital has been provided e.g. the proportion of non-interest bearing PDC in the case of steel. The estimated out-turn figures for 1979/80 are taken from the industries' monitoring returns, and unlike the earlier years' figures make no allowance for tax. This is only likely to make a significant difference in the case of British Gas. An adjustment has been made in each year to the rail and coal figures to eliminate the substantial grants to those industries which are treated as revenue in their accounts.

Sorry about the typing!

Yours,

Richard

R. I. TOLKIEN

T. P. Lankester, Esq.,  
No. 10.

NATIONALISED INDUSTRIES

£m at outturn prices

	1975/76	1976/77	1977/78	1978/79	1979/80	
<u>Total External Finance</u>						
National Coal Board	340	316	328	604	607	←
Electricity Council and Boards	382	69	23	-102	- 68	
British Gas Corporation	184	-204	-495	-429	-450	
British Steel Corporation	654	946	806	752	700	←
Post Office	310	216	-138	- 72	150	
British Airways Board	71	17	87	66	172	
British Railways Board	582	501	532	620	713	←
<u>Profit (Loss)</u>	1975/76 <sup>1</sup>	1976/77 <sup>1</sup>	1977/78 <sup>1</sup>	1978/79 <sup>1</sup>	1979/80 <sup>2</sup>	
National Coal Board <sup>5</sup>	(27.1)	(27.3)	(54.6)	(191.4)	(273)	←
Electricity Council and Boards	8.5	206.5	132.8 <sup>3</sup>	251.4 <sup>3</sup>	188 <sup>3</sup>	
British Gas Corporation	25.1	31.5 <sup>3</sup>	103.9 <sup>3</sup>	172.3 <sup>3</sup>	395 <sup>3</sup>	
British Steel Corporation	(255)	(95)	(443)	(309)	(324)	←
Post Office	147.8 <sup>3</sup>	290.6 <sup>3</sup>	367.3 <sup>3</sup>	375.1 <sup>3</sup>	213 <sup>3</sup>	
British Airways Board	(16.3)	35.1	32.5	77.3	20	
British Railways Board <sup>4&amp;5</sup>	(327.6)	(333.7)	(347.4)	(443.3)	(662)	←

(1) Post depreciation, interest, tax etc.

(2) Estimated outturn - post interest and depreciation but pre-tax.

(3) After supplementary depreciation

(4) Calendar year figures

(5) After deducting grants

8 JAN 1980

