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10 DOWNING STREET

(1)

Prime Minister

This answer to an arranged
question is for tomorrow. It takes
no account of your view that the
Post Office and British shipbuilders
EFL's must be too high given their
recent pay offers.

Leon Brittan recognises this. But
he is anxious to get the figures
out, to get the NIS reduction on
record, and would prefer to adjust
them later for the pay (and other)
adjustments. Content?

MCS 6/4

Question: To ask the Chancellor of the Exchequer, whether he will make a statement about revised External Financing Limits for the nationalised industries for 1982-83 following his announcement in the Budget speech that these would be reduced to take account of the cut in the National Insurance Surcharge.

Reply (for the Chief Secretary)

The revised external financing limits for the nationalised industries in 1982-83 are set out in the table below. The amendments include certain changes in addition to those consequent upon the National Insurance Surcharge reduction. These include reductions in the external financing limits for British Rail, as already announced by my rt hon Friend the Secretary of State for Transport on 4 March, to take account of an overrun in 1981-82 now expected to be £40 million following recent industrial action by ASLEF; for the National Coal Board to take account of delayed sales from 1981-82; and for the Scottish Electricity Boards following the closure of the Invergordon aluminium smelter. The adjustment for British Airways also reflects lower repayment requirements in respect of the special severance facility granted in 1981-82.

<u>Industry</u>	<u>1982-83 External Financing Limit</u> £ million
National Coal Board	962
Electricity (England and Wales)	-243
North of Scotland Hydro-Electric Board	9
South of Scotland Electricity Board	211
British Gas Corporation	-83
British National Oil Corporation	-85*
British Steel Corporation	350**
British Telecom	320
Post Office and Girobank	-38
British Airways Board	-8
British Airports Authority	47
British Railways Board	897
British Transport Docks Board	-7
British Waterways Board	39
National Bus Company	69
Scottish Transport Group	20
British Shipbuilders	123

* The British National Oil Corporation figure is an external financing requirement, and does not represent a formal limit.

** The £350 million figure published at the time of the Budget is

still provisional and subject to review in the light of final decisions on the industry's Corporate Plan. The effect of the NIS reduction should be to reduce the industry's external financing needs by £7 million. This will be taken into account when the final EFL is set.

I am also able to announce external financing limits for certain other public corporations not regarded as nationalised industries for public expenditure planning purposes. These are as follows:

<u>Public Corporation</u>	<u>1982-83 External Financing Limit (£ million)</u>
Water Authorities (England and Wales)	414.5
Urban Development Corporations	63.8
Civil Aviation Authority	30.9



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

AD
SV

The Rt Hon Leon Brittan QC, MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON SW1

cc PS/K Cl
PS/ Secretary
N Lazarus
N Sanderson
N Holmes
A. P. Brown
19 February 1982 - with pp

Dear Leon

BRITISH TRANSPORT DOCKS BOARD: EFL OVERSHOOT

I am writing to let you have my proposals for dealing with the overshoot of the 1981-82 EFL now projected by the British Transport Docks Board (BTDB).

BTDB's latest forecast, which is £5.3m worse than their forecast at the end of the last quarter, is that they will require £8m of external finance in 1981-82, an overshoot of £13m over their EFL of £-5m. This assumes, however, that BSC pay before 31 March the sums outstanding in respect of the Port Talbot contract, which now amount to over £5½m (only £3.1m of which relates to 1981-82). It seems unlikely that BSC will pay before the end of the year, and the overshoot is therefore likely to be £18.5m.

There have been two main factors responsible for this deterioration. The long-running series of industrial disputes at Southampton, which it is hoped have now finally been settled, have led to that port making a net loss (after interest) in the first 47 weeks of 1981 of £10m, compared to a profit of £1.4m over the equivalent period in 1980. BTDB are now fighting hard, with some success, to recover the traffic lost during the disputes. The other factor has been the severance payments to

labour other than registered dock workers, which are now estimated to cost £5.2m (as against £2.7m in last quarter's forecast). It is only through these severances, and the national voluntary severance scheme for registered dock workers, that BTDB have been able to secure the manpower reductions that are essential for their future prosperity. The Board have in fact achieved a reduction in 1981 of 11.5% of their total workforce, and a reduction of 17% in the number of registered dock workers.

These reductions are impressive, particularly bearing in mind the constraints on shedding labour in the ports industry, and I am confident that the Board are doing all in their power to reduce their operating costs, in order to bring them into line with the currently very depressed levels of traffic. This action has involved high extraordinary costs in 1981-82, but it was essential if BTDB were to restore their financial performance in 1982, and thus pave the way for an early flotation. That is the overriding objective of both the Board and ourselves, and it is in the light of this that we should now consider what action to take.

There is clearly no prospect of the Board meeting their EFL. Nor do I consider that it would be appropriate to revise it at this stage, not least because there is continuing uncertainty arising from the continuing withholding of payments by BSC, and from the effects of the ASLEF strikes on the railways. I am sure that the Board are controlling their business very firmly. They are motivated both by their desire to avoid an increase in their temporary borrowing ceiling (which is requiring them to control their cash flow very tightly) and, more importantly, by their desire to achieve the maximum possible improvement in profitability in order to secure a very early flotation.

The question is therefore whether it would be appropriate to announce now that an EFL overshoot is in prospect. On balance, and given that we hope to float in June, I think it would be best to indicate now the likely level of overshoot, and the reasons for it, thus ensuring that the announcement I would have to make after the end of the financial year does not come as a surprise to the City close to the date of flotation. I attach a draft Parliamentary answer which I would propose to make next week.

Yours ever

David

DAVID HOWELL

DRAFT ARRANGED PQ AND REPLY

To ask the Secretary of State for Transport, whether he expects the British Transport Docks Board to meet its 1981-82 external financing limit.

The British Transport Docks Board's external financing limit (EFL) for 1981-82 was set at £5m; that implies that the Board should reduce its net borrowings by £5m, as well as financing all its capital expenditure from internal resources. When the EFL was set in November 1980, it was hoped that the Board would benefit from a substantial recovery in the volume of trade; but in the event this has not occurred. The Board's finances in 1981-82 have also been severely affected by the series of industrial disputes at Southampton which occurred between March 1981 and January this year. In response, the Board have made strenuous efforts to reduce their operating costs, and they have succeeded in reducing their total workforce by 11½% during 1981. This has involved high extraordinary costs in 1981-82 in the form of severance payments to the employees made redundant. The overall result is that the Board do not now expect to meet their EFL for 1981-82; and their requirement for external finance may be over £10m.



cc B.I.
Teresa
(For state folder)

Nat Bond

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

nc

MAD

24/2

Mike Pattison Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON
SW1

25 February 1982

Dear Mike

BRITISH TRANSPORT DOCKS BOARD (BTDB): EFL OVERSHOOT

We spoke earlier today about the announcement of the Board's overshoot.

My Secretary of State wrote to the Chief Secretary on 19 February about this seeking his agreement to the terms of the announcement. The Chief Secretary replied on 24 February conveying his consent. We were planning to make the announcement in reply to a PQ from Robert Adley yesterday, but in the event this did not take place. We now propose to make the announcement in response to an inspired Written PQ next Monday afternoon after 3.30 p.m. I attach a copy of the answer as agreed by the Chief Secretary which incorporates the amendment mentioned in the reply of 24 February.

I am copying this to the Private Secretaries to the members of E(NI) and to David Wright. A copy also goes to Nick Huxtable in the Lord President's Office together with a copy of my Secretary of State's letter of 19 February and the Chief Secretary's reply of 24 February.

Yours ever
C R Edwards

C R EDWARDS
Private Secretary

DRAFT ARRANGED PQ AND REPLY

To ask the Secretary of State for Transport, whether he expects the British Transport Docks Board to meet its 1981-82 external financing limit.

The British Transport Docks Board's external financing limit (EFL) for 1981-82 was set at £-5m; that implies that the Board should reduce its net borrowings by £5m, as well as financing all its capital expenditure from internal resources. When the EFL was set in November 1980, it was hoped that the Board would benefit from a substantial recovery in the volume of trade; but in the event this has not occurred. The Board's finances in 1981-82 have also been severely affected by the series of industrial disputes at Southampton which occurred between March 1981 and January this year. In response, the Board have made strenuous efforts to reduce their operating costs, and they have succeeded in reducing their total workforce by 11½% during 1981. This has involved high extraordinary costs in 1981-82 in the form of severance payments to the employees made redundant. The overall result is that the Board do not now expect to meet their EFL for 1981-82; and their requirement for external finance may be over £10m.

Any excess over the Board's existing EFL will be met from the unallocated margin of the Contingency Reserve.

cc BT
MAP



Prime Minister (2) ✓ AD
JV

A sorry story.

MUS 25/2

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP
Secretary of State
Department of Transport
2 Marsham Street
London SW1P 3EB

24 February 1982

Dear Secretary of State

BRITISH TRANSPORT DOCKS BOARD (BTDB) : EFL OVERSHOOT

You wrote to me on 19 February with details of an announcement you propose to make about the prospect of the Board breaching its 1981-82 EFL, probably by more than £13 million. I understand that you would like to make your statement in reply to a Question which coincidentally has been put down by Robert Adley for answer today.

I am prepared to accept that the Board's case is exceptional because of the particular constraints imposed by the ports industry, of which they are part, but above all because of the need to have particular regard to more than the short term problem with their current EFL in view of the importance of securing a successful flotation in June. For these reasons I am prepared to agree that we should acknowledge the prospect of an overshoot of this year's EFL and that at this stage we should not pursue the possibility of penalising the Board by seeking an equivalent adjustment to next year's EFL as we should normally seek to do. I also agree that it would be preferable to make the announcement as soon as possible even though the continuing uncertainty of their trading position precludes a revised EFL being set. While this is something you will need to satisfy yourself of. I imagine that the Board's desire to ensure that the sale of shares is a success should be incentive enough for them to make every effort to minimise the extent of the overshoot.

I would be content with the announcement you propose subject to the addition of the following sentence at the end:

"Any excess over the Board's existing EFL will be met from the unallocated margin of the Contingency Reserve."

I am copying this letter to members of E(NI) and to Sir Robert Armstrong.

yours sincerely

PP LEON BRITTAN

(approved by the Chief Secretary and signed in his absence)

2 5 FEB 1982

