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SECRETARY OF STATE FOR ENERGY
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Andrew Turnbull Esq
Private Secretary to
the Prime Minister
10 Downing Street
LONDON
SW1

19 July 1984

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Dear Andrew

PUBLIC EXPENDITURE

David Peretz wrote to you on 16 July and enclosed a memorandum which the Chancellor wished to discuss with colleagues.

I attach a paper which my Secretary of State has prepared in the light of the Chancellor's memorandum. It ought to be subject to the same stringent restrictions on circulation and safeguards as to custody.

I am copying this letter and enclosure to David Peretz (Treasury), John Graham (Scottish Office) and Callum McCarthy (DTI).

Yours sincerely

cc Sir Robert Armstrong
Mr Gregson

M F REIDY
Private Secretary

PUBLIC EXPENDITURE AND ELECTRICITY PRICES

Memorandum by the Secretary of State for Energy

1 The Chancellor of The Exchequer's Memorandum proposes an increase in electricity prices of 6% from 1 September in order to raise £250m in 1984/5.

2 As the Chancellor's Memorandum makes clear, the problems he describes about public expenditure in 1984/5 are not primarily the result of the miners' strike. It is not right to say, certainly at this stage, that the miners' strike "stands out", with local authority expenditure, as one of the two areas of upward pressure.

3 On the Chancellor's figures the total prospective overspend on local authority capital and current expenditure is in the range of £2.05bn to £3.05bn against a contingency reserve of £2¾bn. Other items are £½bn already charged to the reserve; £425m for the EC settlement; and £290m for the end-year flexibility conceded last year by the Chancellor. The Chancellor also says that the PSBR costs of the miners' strike to date are about £300m, rising by about £30m a week. This figure consolidates the finances of the CEGB and the NCB and takes account of the second big factor in the net cost calculation beside the oil burn: the £25m a week saving on miners' wages, which is not mentioned in the Chancellor's minute. But it takes no credit for the savings which are so far accruing on NCB capital investment and on RMPS payments. The NCB tell me that if the strike ends on 30 September they would by then have underspent £200m on their capital programme for 1984/5. They would also have underspent £100m (annual rate) on redundancy payments. Even if some of that were later overhauled, we are probably talking of total savings in the region of £250m. It also takes no credit for the fact that the CEGB oilburn has had a significant effect in sustaining the oil market at a time of weakness, and has therefore certainly helped the Exchequer: a difference of 50 cents a barrel on the oil price means about £250m a year to the Exchequer.

4 The conclusion must be that the miners' strike is so far only a minor contributor to incerased public borrowing. The other factors named by the Chancellor total £3bn to £4bn and completely dwarf increased borrowing due to the strike. Even in a public expenditure/PSBR context there is no clear reason, let alone reasons which could be sustained publicly, why costs of this strike ought to be singled out for early attack.

5 But I think it is much more important to look at the proposal to increase electricity prices in the context of the handling of the strike, of public opinion and of the political implications. As the Chancellor recognises, we would have to go through a process of discussion with the industry and of references to Consumer Councils which would take a number of weeks. It is facile to say that I should secure that the proposal for the increase comes from the industry. At the moment the industry's position is that the Government ought to pay for the oilburn. I have not accepted that, but there is no way that I could guarantee to disguise the fact that the proposal for an emergency price increase is coming from the Government. Public opinion and the media would at once characterise this as another instalment of last year's arguments about electricity prices and set about casting Ministers in familiar and unhelpful roles. This impression would be confirmed by public discussion of the 1983/4 results of the electricity industry, which are to be published and presented on 2 August; and which will show profits for 1983/4 of £901m before, and £456m after interest, together with a repayment to the Government of £484m. This is hardly the right background for an emergency price increase.

6 We could rely on Scargill and the Labour Party to exploit a Government-imposed price increase to the full week after week during the consultative process and afterwards. Of course we could say that it was part of the costs which Scargill was imposing on the British people. It would however be perceived as part of the cost of resisting the strike ie of the oilburn; and Scargill would play on that. Obviously he would try to get the consumer on his side and to make as much of a contrast as he could between closing uneconomic pits and charging the consumer for a still more uneconomic oilburn.

He would also make it a golden opportunity to draw as much attention to the oilburn as possible, not least in the hope of inducing other unions to obstruct it. He would play the whole issue for all it was worth in order to give further encouragement to strking miners to stay out.

7 I think it would be a first-class political and industrial "banana-skin" for the Government to launch into this argument. The best course is to review the position as soon as we reach the end of the strike and when we face the costs of restocking. If it is then demonstrated that there is a need for a price increase for strike costs, it would be politically much better to label the increase a "strike surcharge" for a specified period, and not to confuse it with normal increases for the industry. That would avoid the appearance of opportunistic raising of money from consumers by bringing forward a future increase, the case for which has yet to be made out. It would also avoid the political trap of trying to argue before the Consumers Councils for an increase on account of the strike in a form which required them to settle next year's increase first - and before we or the industry have determined the financial framework for that year in the IFR.

P W

19 July 1984