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on Coal C/W



Prime Minister

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Ms 9/2

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PRIME MINISTER

EMERGENCY OILBURN : PUBLIC EXPENDITURE ASPECTS

I have been thinking about our meeting yesterday.

2. I of course stand by our decision that power station oilburn in England and Wales should be maximised at once, and I shall be in touch with Nigel Lawson about how the costs, while the ASLEF dispute lasts, are to be met. If the dispute were to run until the end of March, the net costs would be some £260 million. Some of this could no doubt be accommodated by the electricity supply industry within their existing EFL; the balance, if any, would have to be found from this year's contingency reserve, but I foresee no major problem about that.

3. I am, however, very concerned about the consequences for public expenditure if the increased level of oilburn was to be maintained after the end of the ASLEF dispute. The costs in 1982-83 would be very considerable: some £240 million plus another £50 million for the accelerated coal scheme if it too were agreed. To accommodate these would risk increasing next year's contingency reserve, and next year's public expenditure total rising to some £115.5 billion, which would be widely seen as a significant move away from the £115 billion mentioned in our 2 December statement. Moreover, options for the Budget - on which I should like to have a further word with you tomorrow - would be constrained, since the increased costs would bring a commensurate PSBR increase. £240 million-worth of fiscal relief could bring significant dividends; whereas the accelerated



oilburn would buy us by November only three weeks extra power station endurance. A bad buy. I think that we must resist pressure in Cabinet for immediate implementation of the MISC 57 proposals for accelerated oilburn for 1982-83. We need to distinguish between what must be done in 1981-82, and what could be done in 1982-83; and the oilburn proposal for 1982-83 does not, seen from here, look like the best use of resources. Perhaps we could discuss this during our meeting tomorrow.

A handwritten signature in dark ink, appearing to be "G.H." with a flourish.

G.H.

9 February 1982