

Public Expenditure file

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SECRET



Treasury Chambers, Parliament Street, SW1P 3AG

The Hon Alick Buchanan-Smith MP
Minister of State for Energy
Thames House South
Millbank
LONDON SW1P 4QJ

7 November 1983

Dear Minister

MINISTERIAL GROUP ON PUBLIC EXPENDITURE (MISC 99):
ENERGY INDUSTRIES

I have seen your letter of 3 November to Willie Whitelaw and his reply of 4 November.

2. I understand you are encountering some difficulty in getting the industries to accept the increases in gas and electricity prices. I hope you will leave them in no doubt about the need to secure the reductions in public expenditure set out in Willie's letter of 2 November to Peter Walker (assuming these are endorsed by Cabinet).

3. In the end we may have to set their external financing limits (EFLs) for 1984-85 on the basis of the figures in Willie's letter and tell the industries that they are expected to live within them. As far as electricity is concerned, we could back this up by revising their financial target for 1984-85 in the light of the MISC 99 figures.

4. I fully recognise that this could lead to a public row with the industries. I think we must be ready to face that. Our price increases are utterly reasonable and the expenditure savings involved are crucial.

5. I am copying this letter to the Lord President, the Lord Privy Seal, the Secretaries of State for Scotland and for Trade and Industry, the Chancellor of the Duchy and to Sir Robert Armstrong.

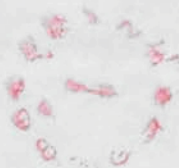


*Yours sincerely
T. Rees*

PETER REES

SECRET [Approved by the Chief Secretary]

19 NOV 1955



PRIME MINISTER

To report that there are the makings of a deal with Mr. Walker. He had already offered about £100 million a year from efficiency savings. Cuts in NCB investment of £40 million rising to £100 million look like being agreed (though they might not be identified in published figures). MISC 99 has offered 5 per cent on domestic gas which Mr. Walker naturally accepts. On electricity, MISC 99 have offered increases in prices of 3 per cent in each of the next two years rather than Mr. Walker's proposal of a freeze next year and an increase of 6 per cent the year after. He has agreed to take this to the electricity industry. The difficulty is that they may prove difficult as these increases could cause their financial target to be exceeded and a new target may have to be imposed.

The Treasury are disappointed about gas prices but in aggregate over the three years have got more than they were bidding for.

Mr. Walker departs for China in the morning, leaving Alick Buchanan-Smith to sell the gas price increase to Sir Denis Rooke, which should not be too difficult, and to persuade the electricity industry to accept the higher price path. Only if they prove troublesome would the deal fall apart. Alick Buchanan-Smith is in charge while Mr. Walker is away and will have to answer at Cabinet on 10 November if he cannot deliver the MISC 99 package.

AF
ANDREW TURNBULL

1 November, 1983