Public expenditure totals

NOTE OF A DISCUSSION ON ENERGY INDUSTRY ISSUES AT NO 11 DOWNING STREET AT 4.30 PM ON 9 NOVEMBER 1983

Present:-

Chancellor
Mr Middleton
Mr Bailey
Mr Kerr
Mr Robson

Mr Buchanan-Smith, Minister of State Department of Energy
Sir Kenneth Couzens
Mr Wilson

The Chancellor said that he had been very concerned at reports that the Department of Energy were not confident of delivering the MISC 99 agreement in respect of the gas and electricity supply industry. The deal struck in MISC 99 was not precisely as Treasury Ministers would have wished, but they had accepted it, and so - they had understood - had the Secretary of State for Energy. The savings which MISC 99 had agreed would be crucial to the Government's success in achieving the aim, agreed in July, of holding to the public expenditure totals. He had therefore thought it appropriate, in the light of the reports he had heard, to ask for an urgent meeting with Mr Buchanan-Smith (in the Secretary of State's absence in China): it was important to know the precise position before Cabinet on 10 November.

2. Mr Buchanan-Smith said that his Secretary of State had agreed in MISC 99 to do his best to secure the price increases sought from the gas and electricity industries: he had however given no guarantee of success. Subsequent soundings had confirmed the difficulties he had foreseen.

3. In relation to gas, Sir Dennis Rooke would probably be prepared to accept a 5 per cent increase in domestic prices on 1 January 1984, but only on two conditions. First, he would accept no increase in the standing charge, though he would find the cash foregone by savings elsewhere. Secondly, he would insist on prior agreement with the Government on

a 4-year financial target.

4. On electricity, the situation was still more difficult. The Electricity Council were adamantly opposed to any price increase in 1984-85, and maintained - correctly, in the Department of Energy's view - that they could meet their financial target for the year without an increase. It might be possible to recoup the bulk of the £210 million expected in 1984-85 from a price increase through efficiency savings, but agreement on a price increase seemed highly unlikely: the only option other than accepting the alternative of efficiency savings might therefore be the imposition of a price increase via legislation, which would be unpopular.

5. The Chancellor said that the situation was profoundly disturbing. The suggestion appeared to be that the Government might in effect be abdicating control of nationalised industry pricing policy. And his understanding had not been that the MISC 99 package was ad referendum to Sir Dennis Rooke and Mr Jones of the Electricity Council. He and the Chief Secretary believed that the MISC 99 package should be delivered.

6. As to gas, it made little sense to set a 4-year financial target in advance of agreement within Government on the correct gas pricing policy; and he recalled that this was also the Prime Minister's view. Pricing was in any case a Board matter, not the exclusive prerogative of Sir D Rooke. But if it were really thought essential to concede a financial target in order to secure the MISC 99 agreement, he would be prepared to consider a Department of Energy proposal, provided that it were made clear to all parties that it was inevitably of a provisional nature. As for the standing charge, not increasing it would be odd, but need not perhaps be excluded, provided that a compensating saving were made.

7. On electricity, a price freeze, followed by a sharp increase in April 1985, would in his view be very unsatisfactory to Government. It was essential that the total savings agreed in MISC 99 should be found, and the very modest 3 per cent price increase agreed at MISC 99 was economically desirable in itself. If necessary, therefore, it would have to be imposed on the industry. As to the proposed contingency fall-back of seeking compensating efficiency savings, it was not even clear whether compensation in full would be in prospect.

8. Mr Buchanan-Smith said that, given the Lord President's views, he did not envisage any further exploration before Cabinet on 10 November. But his view was that the bulk of the required £210 million could be found from the electricity industry, and if there were any shortfall it would have to be found from other energy industries. It might, for example, be possible to effect on gas in 1984-85 a further £40 million saving envisaged for 1986-87.

9. It was agreed that, on gas, officials would compare notes very urgently on an appropriate provisional financial target. On electricity, Department of Energy officials would explore with Treasury officials the details of the contingency fall-back of efficiency savings instead of a price increase. Such savings would have to be real, deliverable, and verifiable; and they must not entail any transfer of expenditure into the current year. The Chancellor pointed out that, if the worst came to the worst and the 3 per cent price increase in 1984-85 were in the end foregone, the 1985-86 increase would have to remain 6 per cent, instead of coming down to 3 per cent.

10. The Chancellor repeated that he stood by the MISC 99 package. He was however grateful for Mr Buchanan-Smith's description of Department of Energy thinking; and he noted that the threat which Mr Buchanan-Smith foresaw was not to the total savings agreed in MISC 99 but to their composition.

This was important, because the 1984-85 public expenditure figures for the Autumn Statement would, if Cabinet reached agreement on 10 November, have to go to press on 11 November. An agreed 1984 EFL for the electricity supply industries would be required on the same time-scale.

MOM

for J O KERR

DISTRIBUTION:

Chief Secretary	PS/Secretary of State, Dept of Energy
Mr Middleton	PS/Minister of State, Dept of Energy
Mr Bailey	Sir Kenneth Couzens, Dept of Energy
Mr Burgner	
Mr Scholar	
Mr Robson	