



Original on:

NAT IND  
Electricity & Gas Prices  
Sept 1979

PRIME MINISTER

## NATIONALISED INDUSTRIES' EFL FOR 1979-80 AND 1980-81

Play A  
You will have seen Keith Joseph's letter to Geoffrey Howe of 4 March about BSC's inability to pay 1979-80 bills worth about £150 million until 1980-81. You will also have seen David Howell's letter of 29 February about the electricity industry's EFL for 1980-81.

29 Feb  
B  
ELEC + GAS INCR  
There seems no defensible alternative to allowing BSC in these exceptional circumstances to transfer £150 million of its EFL for 1979-80 to 1980-81, though I agree with Keith that we should present this separately from the existing 1980-81 EFL of £450 million. The consequent increase in public expenditure (a little over £100 million in Survey prices) makes it even more important to avoid any other increases in EFLs for 1980-81.

I also think we need to reconsider the decisions we took on electricity at E Committee last week in view of the new information. As I understand it, David Howell is in effect saying that if we force the electricity industry to defer £100 million of its payments from this year to 1980-81, which is the effect of limiting the increase in this year's EFL to £200 million, he can see no acceptable way of ensuring that the EFL of £187 million for 1980-81 is made to stick. In all the circumstances I would now be ready to drop all but £20 million of the proposed deferment, provided that the electricity industry agrees on the basis set out below to take steps to live with the EFL for 1980-81. The electricity increase this

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year would then be £280 million (before allowing for the further losses from the steel strike mentioned at the end of Davids's letter which might bring the total to around £300 million). I think we must accept that the industry would on current assumptions need to raise prices in July by about 10 per cent as a minimum in order to achieve the first stage of its financial target and to reduce its capital expenditure by the means David mentions which add up about £40 million. The industry would still be left with about £40 million to absorb next year to remain within the agreed EFL of £187 million for 1980-81.

Now that the electricity story is in the public domain I think we should be ready to publish the electricity figure for 1979-80 in the White Paper at the same time as we publish BSC's transfer of £150 million from 1979-80 to 1980-81. Given the publicity on electricity it would be difficult to defend leaving the present unrealistic figure in the White Paper. We can leave the question whether there should be a separate announcement on electricity before the Budget until we see when the steel strike comes to an end, unless of course, the weekend Press reports mean that we can make an announcement now.

The timetable for the White Paper is now very tight and I propose to make the changes proposed above unless I hear to the contrary by Thursday lunch-time.

I am sending copies of this minute to Members of E Committee, George Younger and to Sir Robert Armstrong.

*Acline*

p.p JOHN BIFFEN  
4 March 1980

[Approved by the Chief Secretary  
and signed in his absence]



10 DOWNING STREET

From the Private Secretary

Nat Ind. H.S.  
Original on  
NAT IND  
Electricity & Gas Prices  
Sept 1979.  
6 March 1980

Nationalised Industries' EFLs for 1979-80 and 1980-81

The Prime Minister has now considered the Chief Secretary's minute of 4 March on the above subject; she has also read the letter of 29 February from the Secretary of State for Energy, and the letter of 4 March from the Secretary of State for Industry.

The Prime Minister agrees with the Secretary of State for Industry's proposal for transferring £150 million of BSC's EFL for 1979-80 to 1980-81, which the Chief Secretary has endorsed. She also agrees with the arrangement proposed by the Chief Secretary for the electricity industry's EFL for 1979-80, and she agrees that the present EFL for 1980-81 of £187 million should now be accepted and confirmed in the Public Expenditure White Paper. However, she does not think it would be right at this stage necessarily to accept that the only way of living within the 1980-81 EFL is to put up electricity prices by 10% in July. Instead, she would like the Secretary of State for Energy to bring a full paper to E Committee with recommendations on the ways in which the industry might stick to its EFL. This paper should look at all the options, including the possibility that working capital requirements might be lower next year on the assumption that it may not be necessary to spend so much on building up fuel stocks as in 1979-80 and it should be ready for discussion in E Committee immediately after the Easter Recess.

I am sending copies of this letter to the Private Secretaries to the members of E Committee, Godfrey Robson (Scottish Office) and David Wright (Cabinet Office).

T. P. LANKESTER

A.C. Pirie, Esq.,  
Chief Secretary's Office:

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Ref. A01614

MR. LANKESTER

Original on  
Nat Ind: Sept 1979  
Electricity + Gas Prices

Nationalised Industries' EFLs for 1979-80 and 1980-81

You asked for advice on the minute from the Chief Secretary dated 4th March in which he asks for very urgent decisions about the EFLs for the BSC and the electricity supply industry in England and Wales both for 1979-80 and 1980-81. He needs certainty about the figures because they will be published on Budget Day.

2. The recommendations about EFLs for the BSC are probably inescapable. They represent a simple transfer of expenditure from one year to the next brought about by the steel strike. The problem is presentational rather than real - with a danger of misrepresentation on the 1980-81 figures against the background of the Government's firm adherence to £450 million for that year. But the presentational difficulties are not insuperable.

3. The EFL for the electricity supply industry in England and Wales presents a different problem. Here we are talking about real overruns and corrective action. You will recall that when E Committee discussed this subject on 26th February (E(80) 8th Meeting, Item 3) they agreed that the electricity industry's EFL for 1979-80 should be held at £200 million with a deferment of about £100 million of expenditure from 1979-80 into 1980-81. The Chief Secretary is now offering to absorb the greater part of the overrun into the 1979-80 figure (no doubt making use of the underspend on BSC as an offsetting factor). In the circumstances there is no need to object to this action - which indeed is helpful. But even without a carry-forward the electricity industry is heading for a substantial overspend in 1980-81, the full details of which are set out in Mr. Howell's letter to the Chief Secretary of 29th February.

4. The essential problem is this: a figure for electricity in 1980-81 must be published in the White Paper (Table 3.4 of the present draft) - and the White Paper goes to Press this week. Quite apart from publication problems, however, the Chancellor needs to know the number as part of his Budget arithmetic. The Chief Secretary suggests sticking to £187 million and accepting the consequences (which

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could include a 10 per cent price increase from July rather than the 5 per cent increase in October which Ministers have already agreed). The alternative would be to decide now on a different number. But this is neither practicable in the timescale nor sensible, given that the actual means by which the electricity industry would comply with the EFL have still to be argued through. In the circumstances the best course might be to agree to the maintenance of the present limit but expressly to reserve decisions on how to achieve it for the time being. Even a price increase as early as July does not need feeding into the consultative machinery before April or May and the Prime Minister would, I am sure, prefer to be able to take into account as well the work she has commissioned from the CPRS on electricity investment. It is of course also possible that at the end of the day Ministers might find that the most convenient package of measures also involved some adjustment of the industry's EFL (if necessary at the expense of the Contingency Reserve) - but this too is for the future.

5. If the Prime Minister agrees, the best course might be:-
- (a) To endorse Mr. Biffen's and Sir Keith Joseph's suggestions on the BSC's EFLs.
  - (b) To endorse the proposed arrangement for the 1979-80 EFL for the electricity supply industry in England and Wales as proposed by Mr. Biffen.
  - (c) To endorse the electricity industry's present EFL for 1980-81 for publication in the expenditure White Paper and to commission Mr. Howell to bring a full paper and recommendations on the ways in which the electricity industry might live within this EFL to E Committee immediately after the Easter Recess.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

6th March, 1980

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4 March 1980



Secretary of State for Industry

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*Dear Geoffrey,*

BSC: 1979/80 CASH LIMIT

The steel strike is causing an unexpected distortion of BSC's cash flow; money is continuing to flow in from their debtors but BSC are finding it much more difficult administratively to pay money out. Accordingly, and quite contrary to what they told us at the end of January, BSC now expect to be about £150 million underspent on their external financing limit for 1979/80. This does not reflect any improvement in their financial position but only a spill over into 1980/81 of debts and obligations incurred in 1979/80 but which cannot be paid because of the strike.

BSC still expect their cash needs to March 1981 to exceed the external financing limit by £300-500 million. This does, of course, raise serious policy issues which we last discussed on 30 January but we need to see how things work out after the strike before considering how best to deal with this. Meanwhile, we are pressing the Corporation to maximise the raising of funds from their own resources in 1980/81, eg by reducing working capital and disposals.

The present inability to pay debts and obligations incurred in 1979/80 is a much more limited problem. BSC have considered a number of expedients by which the outstanding balance up to the external financing limit could be drawn and a formal underspend avoided. Thus, the balance could be placed in deposit in a way that stood outside the PSBR or it could be paid into a trust fund which would hold monies due to redundant workers or it could be used to make advance payments to large suppliers.

These expedients would all be artificial and would also look extremely odd for a body in BSC's critical financial position. Unless you can suggest a better expedient, it seems to me that the best solution would be to acknowledge the facts of the matter, namely, that the shortfall in 1979/80 has arisen solely through an inability to pay debts and obligations because of the strike;

/that ...



that these debts and obligations will consequently fall due for payment in 1980/81 and that BSC therefore needs to carry over the 1979/80 underspend into 1980/81 so as to meet these payments. The carry over should be kept quite separate from the cash limit for 1980/81 and should not be added to the latter, which should remain at £450 million. This will avoid any suggestion that we are giving BSC more public money for 1980/81 than we have already announced.

I should be glad to know if you agree that we can tell BSC that the underspend in their external financing in 1979/80, which arises because of the present strike, can be carried over as a separate package into 1980/81 so as to make payments against debts and obligations incurred in 1979/80. The formal external financing limit for 1980/81 would remain at £450 million. If you do agree, I would see no difficulty in our publicly announcing, eg at the time of the Budget, what we have done and why, making it clear that this created no general precedent for carry overs.

*L. Carr*

*L. Carr*

Copies to E Committee

4 MAR 1950

